Supreme Court, U.S.
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In the Supreme Court of the United States

October Term 1994

SUBAFILMS, LTD. and
THE HEARST CORPORATION,

Petitioners,

vs.

UNITED ARTISTS CORPORATION, MGM-PATHE COMMUNICATIONS CO. (FORMERLY KNOWN AS MGM/UA COMMUNICATIONS CO.), MGM/UA HOME VIDEO, INC., WARNER BROS., INC., and WARNER HOME VIDEO, INC.

Respondents.

APPENDIX TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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DOCUMENT 1

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SUBAFILMS, LTD. and THE HEARST CORPORATION, a Joint Venture,	
Plaintiffs,	CASE No. 88 6626 JGD (TX)
vs.	REPORT OF PROCEEDINGS BEFORE THE SPECIAL MASTER AND FINDINGS OF FACT, CONCLUSIONS OF LAW AND RECOMMENDATIONS FOR JUDGMENT
UNITED ARTISTS CORPORATION, MGM/UA COMMUNICATIONS CO., and WARNER BROS., INC.,	
Defendants.	

1. Pursuant to the order of this court filed January 31, 1990, the Special Master conducted various pretrial proceedings, and the matter was set for trial. The matter proceeded to trial on August 6, 1990, upon stipulation of

the parties. Plaintiffs appeared by Bertram Fields and Charles N. Shephard of Greenberg, Glusker, Fields, Claman & Machtinger. Defendants appeared by Louis P. Petrich and Patricia Duncan of Leopold, Petrich & Smith.

1.2 The trial proceedings were reported by Marsha L. Gudgel, C.S.R. 5481, 1036 11th Street, San Pedro, CA 90731; (213) 547-4019.

2. Before the commencement of trial, the parties lodged trial briefs with the Special Master, which had been read and considered by the Special Master before commencement of the trial, and the parties waived additional opening statements.

2.1 Attached hereto on a document marked "Addendum to Special Master's Report" is a list of exhibits deemed marked for identification. Pursuant to stipulation, a common numerical marking system has been used by all parties for said exhibits, regardless of whether the exhibit was proposed by plaintiffs or defendants.

2.2 Pursuant to stipulation of the parties, counsel lodged with the Special Master a set of the operative pleadings with respect to the trial proceedings to be conducted before the Special Master, as follows:

2.2.1 First Amended Complaint lodged on December 13, 1989 deemed filed as of January 8, 1990.

2.2.2 Answer of Defendants Warner Bros. Inc. and Warner Home Video, Inc. to Plaintiffs' First Amended Complaint filed January 18, 1990.

2.2.3 Answer of Defendants MGM/UA Communications Co. and MGM/UA Home Video, Inc. to Plaintiffs' First Amended Complaint and Counterclaims of MGM/UA Communications Co. filed January 16, 1990.

2.2.4 Pretrial Conference Order lodged January 26, 1990 and entered by the Court an January 29, 1990.

3. Between August 2 and August 5, 1990, the parties lodged various motions, and the Special Master, after considering said motions, made the following orders:

3.1 Defendants' notion to bifurcate was denied.

3.2 Plaintiffs' motion in limine to exclude defendants' offer to exclude newly discovered evidence was withdrawn.

3.3 Defendants' motion to preclude the use of the deposition of Joseph L. Jacobs was granted, particularly in view of the indication that Mr. Jacobs would appear for trial on Wednesday, August 8, 1990.

3.4 Plaintiff's motion in limine to exclude evidence of distribution expense offered by defendants was deferred.

3.5 Plaintiffs' motion to quash the subpoena served on King Features, as indicated in the moving papers, is granted.

4. The following witnesses were sworn and testified for plaintiffs:

4.1 On August 6, 1990: Neal Stanley Aspinall, David I. Bursten (by deposition taken on October 4, 1990), Albert Brodax, Robert Andrew Kline (by deposi-

tion taken July 26, 1990), Lee Polk (by deposition taken July 26, 1990).

4.2 On August 7, 1990: Anne Templeton, Andre Blay (by deposition taken July 25, 1990). Waleed B. Ali and Seth M. Willenson.

4.3 On August 8, 1990: Joseph J. Jacobs, cross-examined by plaintiffs as an adverse witness, Stephen Elsky.

4.4 On August 14, 1990: Seth M. Willenson, on rebuttal.

5. The following exhibits were received in evidence:

5.1 On August 6, 1990: 1, 2, 3, 4, 5, 20, 42, 92, 93, 100, 101, 114, 140, 142, 144, 178, 800.

5.2 On August 7, 1990: 7, 10, 43, 117, 118, 119, 120, 122, 125, 150, 308, 348, 600, 601, 602, 603, 604, 605, 607, 608, 614, 615, 700, 701, 702.

5.3 On August 8, 1990: 8, 9, 24, 25, 26, 94, 95, 96, 97, 99, 115, 160, 300, 302, 306, 309, 314, 315, 316, 317, 318, 319, 321, 322, [illegible]4, 328, 334, 342, 343, 349, 350, 358, 370 606, 613.

5.4 On August 9, 1990: 19, 135, 141, 143, 320, 338, 351, 353, 354, 355, 356, 357, 362, 363, 364, 366, 367, 368, 369, 801, 900, 901, 902.

5.5 On August 10, 1990: 12, 13, 14, 68, 69, 110, Ill, 112, 113, 123, 181, 182, 183, 184, 185, 192, 301, 311, 312, 305, 307, 332, 335, 337, 345, 346, 347, 612, 903, 904, 905.

5.6 On August 14, 1990: 6, 44, 45, 46, 138, 161, 179, 703, 704.

5.7 The following exhibits were offered in evidence, and were not received:

5.7.1 On August 8, 1990: 339.

5.7.2 On August 10, 1990: 102, 211.

5.7.3 On August 14, 1990: 158.

6. The Special Master stated for the record that on August 11, 1990 he viewed the entire video cassette recording entitled "Yellow Submarine" as set forth in Exhibit 161, which is now received in evidence.

7. The following witnesses were sworn and testified for defendants:

7.1 On August 7, 1990: Robert Andrew Kline (by deposition taken July 26, 1990).

7.2 On August 8, 1990: Joseph J. Jacobs, Karla Davidson.

7.3 On August 9, 1990: Karla Davidson, Barton Farber, Melvin Sattler, Herbert T. Schottenfeld, Sheldon Mittelman and Richard K. Rosenberg, Karen Burnett.

7.4 On August 10, 1990: Dean Charles Stolber, Karen Burnett, Michael G. Edwards.

7.5 On August 14, 1990: Michael G. Edwards, David V. Picker (by deposition taken on December 19, 1989), Herbert Fischer (by deposition taken July 30, 1990), Lee Polk (by deposition taken July 26, 1990), Jill Feinstein (by deposition taken December 19, 1989).

8. Plaintiffs rested.

9. Defendants moved to dismiss or for a judgment on the following matters, pursuant to Rule 41:

9.1 As to the defendants Warner Bros., Inc., and Warner Home Video, and MGM/UA Home Video, Inc., with respect to causes of action alleging that said defendants wrongfully induced the breach of the subject contract, and with respect to causes of action alleging conspiracy to induce a breach of the subject contract. Said motion was argued and denied.

9.2 As to all defendants with respect to the cause of action based on an alleged tortious breach of contract. Plaintiffs consented to the granting of said motion, and it was granted.

9.3 As to the defendants Warner Bros., Inc., and Warner Home Video with respect to causes of action based on alleged copyright infringement. Said motion was argued and denied.

10. Both sides concluded the presentation of their evidence and rested. The parties presented closing argument and the Special Master ordered that the matter stand submitted for decision.

11. The Special Master, having considered the law and the evidence, hereby makes the following findings of fact, conclusions of law and recommendations to the court for judgment:

12. Plaintiffs are Subafilms, Ltd., a corporation controlled by the Beatles and the Hearst Corporation. In 1966, Subafilms, Ltd. and the Hearst Corporation, through its King Features Syndicate division, entered into a joint venture agreement to produce the animated motion picture entitled "Yellow Submarine," which will be

referred to as "the Picture." The joint venture will be referred to as "the Producer." There is no evidence to support the conclusion that defendants knew that a joint venture existed and they may have believed that they were dealing only with the Hearst Corporation, through its King Features Syndicate division. The distinction is not material to any issue in this case. Plaintiffs are the copyright owners of the Picture.

13. Defendants are United Artists Corporation ("UA"), MGM/UA Communications Co.("MGM/UA"), MGM/UA Home Video, Inc., Warner Bros., Inc., and Warner Home Video, Inc. (collectively "Warner"). The original contracts upon which this action is based were between the Producer and United Artists Corporation. United Artists Corporation was merged into MGM/UA sometime in 1983. For the purposes of this action there is no difference between the new and former entities, and references to UA shall include MGM/UA and vice versa.

14. Yellow Submarine was and is an animated film featuring the cartoon likenesses of the Beatles. The film incorporated several songs previously recorded by the Beatles, as well as new songs written by the Beatles for the Picture. In brief summary, this lawsuit involves a dispute concerning whether UA, and its licensees, is entitled to distribute the Picture for use in what is known as the home video medium or market. UA claims it has such right, and the Producer claims that UA does not have such right.

15. The owner of the rights to the musical recordings that were an integral part of the Picture informed the Producer that it would only grant to the Producer the right to use those recordings for theatrical and television

exhibition and would allow no use of the recordings in any other form or medium.

16. In 1966, the Producer entered into negotiations with UA to finance and distribute the Picture. The initial negotiations were conducted by Nathan Lefkowitz ("Lefkowitz") (now deceased) for the Producer and by David Picker ("Picker") for UA.

17. After the initial negotiations, David Picker told Joseph Jacobs ("Jacobs"), an attorney on the legal staff of UA, to prepare the contract documentation. The remaining negotiations concerning the terms of the written agreements were conducted by David Bursten ("Bursten"), an attorney on the staff of the William Morris Agency, acting on behalf of the Producer, and Jacobs, acting on behalf of UA.

18. Picker sent a memorandum to Harold Klein, a UA executive, dated July 5, 1966, with a copy to Jacobs, which began with the statement: "We have made the following deal with King Features Syndicate, who will produce a Beatle feature-length cartoon. The terms were negotiated with Nat Lefkowitz, of the William Morris office, representing King Features Syndicate." Paragraph 4 states "The term of distribution is ten years, after which we will have our usual joint control clause including the usual 'buy or sell'." [Exhibit 301] Jacobs was given the assignment of documenting the deal based on the terms of the memorandum from Picker.

19. Jacobs, after conferring with Bursten, wrote a memorandum dated July 13, 1966 to Herbert T. Schottenfeld ("Schottenfeld"), Vice President and General Counsel of UA, recording the fact that Bursten had

expressly informed Jacobs that the "deal" was that UA would have "television and motion picture distribution rights."

20. Jacobs, for UA, prepared drafts of a Financing Agreement and a Distribution Agreement, and sent them to Bursten, for the Producer, in July, 1966, for his review.

21. The initial draft of the Distribution Agreement prepared by Jacobs expressly provided that UA was to have nontheatrical and theatrical distribution rights plus television rights.

22. Bursten acknowledged receipt of drafts of the Distribution Agreement and the Financing Agreement by a letter to Jacobs dated August 15, 1966. In the letter Bursten made 67 separate comments concerning the drafts, including requests for deletions, modifications and additions. [Exhibit 5]

23. In conversations with Bursten, Jacobs expressly acknowledged that non-theatrical rights were not included in the rights to be granted to UA. To give effect to that "deal point," Jacobs modified the subsequent drafts of the Distribution Agreement to delete the reference to non-theatrical rights.

24. The first draft of the Distribution Agreement prepared by Jacobs also provided that UA was to receive distribution rights "in perpetuity." Jacobs' memorandum of July 13, 1966 reflects that Bursten told Jacobs that UA's rights were only "for a period of ten years." In Bursten's letter to Jacobs dated August 15, 1966, he reminded Jacobs that UA was to receive distribution rights only for that limited ten-year term.

25. In conversations with Bursten, Jacobs expressly acknowledged that UA's distribution rights were to be limited to a ten-year term, and he modified the subsequent drafts of the Distribution Agreement by substituting the words "for ten years" in place of the words "in perpetuity."

26. Bursten and Jacobs also discussed an arrangement for the Producer and UA to have joint control over the Picture after the end of the ten-year term, providing that neither party could distribute or exploit the Picture without the written consent of the other party. Jacobs recorded, in his memorandum dated July 13, 1966, the fact that Bursten told him that the deal was that "UA would have joint control and a buy and sell provision at the end of the distribution term."

27. A provision was inserted by Jacobs in the Distribution Agreement that purported to clarify that UA, despite the provisions concerning joint control, would continue in its status as a distributor.

28. The legal department at UA in 1966 and 1967, and Jacobs in particular, had a standard practice of using form contract provisions for distribution and financing agreements. Substantial portions of the agreements were "assembled," using mimeographed pages relating to various subjects as to which UA wanted standardized provisions. Electronic word processing was not available at that time, but according to a letter from Bursten, his office had a Xerox copying machine, and it can be assumed that Jacobs also had a copying machine. Jacobs stated that the various form versions were kept in file folders, so that "sets" could be pulled and assembled as needed. Many of the pages of the agreements have

"version" dates or legends at the lower left hand corner of the page, reinforcing the form nature of various parts of the agreements. For instance, page 23 of Exhibit 3, the July, 1966 draft of the Financing Agreement, has a version date of "9/30/64." The final Distribution Agreement has version dates of "10/31/56" for page 3, "6/13/60" for page 5, "2/27/62" and "9/24/64" for page 6, and "5/59" for page 9, just to name a few of the version dates appearing in the agreement. Schottenfeld confirmed this practice.

29. The Distribution Agreement and the Financing Agreement were signed by the parties in May, 1967. The Financing Agreement provided how and to what extent UA would provide funds for the production of the Picture and provided that profits from the Picture would be divided between UA and the Producer on a 25/75 basis. Later agreements resulted in a reduction of UA's profit participation to 20%, for reasons that are not material to this dispute.

30. The first general release of the Picture was on August 4, 1968. UA distributed the Picture in the theatrical market place [motion picture theaters open to the ticket-buying public] and later on television.

31. Between 1968 and 1987, neither UA nor the Producer exploited home video rights in the Picture, and the Picture was not available to the public through the purchase or rental of video cassette tapes or video disks between 1968 and 1987.

32. At no time has any party exercised the buy-or-sell provision set forth in Article 13 of the Financing Agreement.

33. UA inserted provisions in its Canadian and European syndication contracts that stated that its own rights to "Yellow Submarine" would expire on August 4, 1978 and that its licensees could not broadcast the Picture beyond that date. Although the date of August 4 does not appear in the Distribution Agreement, said date can be computed from the terms of the Distribution Agreement. August 4, 1978 was the expiration of the initial tenyear term after the first general release of the Picture during which UA had distribution rights, and before the joint control provisions took effect.

34. UA did not distribute the Picture in any non-theatrical markets for almost twenty years. On February 24, 1971, Al Brodax, credited as being the producer of the Picture, wrote to David Picker at UA and inquired about the use of Yellow Submarine in 16-millimeter film for rental to schools, and suggested that this would be of "considerable value." He stated that someone at UA had told a potential rental customer that UA did not have 16-millimeter rights. He expressed a lack of recollection as to whether or not the distribution so provided, and asked for Picker's comments. On April 15, 1971, Dean Stolber, then an attorney in UA's legal department, wrote to Al Brodax and stated: "This is to advise you that United Artists was not granted any non-theatrical rights under the Distribution Agreement for the above [Yellow Submarine] picture. I suggest you address any further inquiries to King Features Syndicate."

35. In August, 1978, the ten-year distribution term ended. Barton Farber ("Farber"), a representative of UA, called Robert Kline ("Kline"), an attorney for Hearst Corporation, to confirm that UA's distribution term was

about to expire and to discuss extension of the term. Farber confirmed that the parties were to have joint control over distribution of the Picture after expiration of the ten-year distribution term and stated that UA wanted to explore the possibility of extending the term.

36. Representatives of the Producer, King Features Syndicate, and UA thereafter engaged in discussions concerning the possibility of extending the term of the Distribution Agreement. The producer stated that as a condition of such an extension, UA would be required to pay more favorable rates than governed by the initial contract.

37. During the period UA and the Producer were negotiating about an extension of the distribution term, Farber of UA, on January 19, 1979, wrote to Polk, of King Features Syndicate, concerning UA's request for an accounting from the Producer as to money received by it from non-theatrical distribution of Yellow Submarine. He stated "You have been selling YELLOW SUBMARINE for more than five years and we have yet to see either a statement or a remittance. The interest charges alone must be substantial." On January 18, 1979, Polk sent Farber an accounting and a "... check in the amount of $26,389.42 covering non-theatrical distribution of YELLOW SUBMARINE for the period 1971 through 1978."

38. UA then rejected the Producer's demands for an increase in the distribution fees payable by UA. UA then asserted a right to distribute the Picture beyond the initial ten-year term, and the Producer expressly rejected this interpretation of the contract. No agreement to extend the term was reached by the parties. The Producer took

no action to prevent UA from continuing its theatrical and television distribution.

39. In the early 1980s, the home video market began to emerge. At that time, UA entered into agreements with two of the pioneer companies in the home video field, Magnetic Video and RCA. UA entered into a contract with Magnetic Video around 1981, pursuant to which Magnetic Video received the right to distribute numerous films in UA's film library to the domestic home video market. UA also entered into a contract with RCA pursuant to which RCA was given the right to distribute the UA film library on video discs [as compared to tape cassettes] for home video viewing.

40. Both Magnetic Video and RCA wanted and expected that "Yellow Submarine" would be included among the films they would distribute in their respective home video arenas. UA informed Magnetic Video and RCA that "Yellow Submarine" was not available for home video distribution. On June 18, 1982, A. Frank Reel, an attorney in the UA legal department, wrote to Anne Templeton, the video rights manager for the newly created video distribution department, stating: "In response to your memo of June 16, 1982, I do not believe we can grant home use cassette and disc rights in [Yellow Submarine]."

41. In 1981, UA also entered into an agreement with Warner Home Video for home video distribution. Warner Home Video was given the right to distribute the UA library for home video viewing in the international market. UA, however, did not make "Yellow Submarine" available to Warner Home Video at the time of the contract.

42. By 1987, the home video market had changed. More and more homes were equipped with videocassette recorders, capable of playing films which were pre-recorded on tape. The value of home video distribution rights escalated significantly. Independent companies were paying seven-figure advances on royalties to obtain video rights to motion pictures. At this time, MGM/UA decided to distribute "Yellow Submarine" in the home video market.

43. When the Producer learned that MGM/UA intended to distribute "Yellow Submarine" in the home video market, it notified MGM/UA of its objection to said action. Notwithstanding said objection, MGM/UA distributed the Picture domestically, though its subsidiary MGM/UA Home Video, and granted international home video distribution rights to Warner Home Video.

44. Pursuant to Exhibit 68, presented by the MGM/UA accounting department, gross receipts from home video distribution of Yellow Submarine through February 25, 1989 were $1,630,192.73. Pursuant to Exhibit 905, an update presented by the MGM/UA accounting department, the gross receipts from home video distribution, including foreign distribution, was $1,888,000.00 through February 25, 1990. After deduction for distribution expenses, advertising expense, music license fees, and allowance for profit participants, the estimated profit is $41,000.00. The Special Master finds that MGM/UA has received, as of February 25, 1990, the gross amount of $1,888,000.00. Based on Exhibit 179, the Special Master finds that defendant Warner Home Video has received from revenues or at least $1,421,000.00 from its distribution of Yellow Submarine in the home video

market. The Special Master makes no finding with respect to various deductions and expenses asserted by MGM/UA and Warner Home Video.

45. The Special Master has received all of the parol evidence offered by either party which was otherwise competent evidence. Said parol evidence was received to attempt to determine the correct intention of the parties with respect to the two agreements, and because the two agreements are ambiguous on their face. It is clear that when two agreements are entered into at the same time, concerning the same subject, they must be given an interpretation that is consistent and "are to be taken together." The Special Master concluded that it was necessary to receive parol evidence to ascertain the correct intention of the parties with respect to why they entered into the two agreements. In addition to said reason, it was necessary to receive parol evidence to interpret the two agreements because they are not clear on their face, and there are ambiguities that cannot be resolved without reference to parol evidence. The two agreements are not a model of clear, concise contractual expression. There are portions of the agreements, both in dispute in this case, and not in dispute, that are verbose, redundant, misleading and ambiguous. The very fact that UA chose, as a regular practice, to use two agreements, one for distribution and one for financing, despite the fact that the essential subject of the agreements was identical, creates certain ambiguities.

46. The Special Master has received otherwise competent parol evidence relating to the conduct of the parties, and particularly with respect to the conduct of

UA, after execution of the agreements, for a different reason.

46.1 The documentary record in this case contains many writings that preceded and followed the execution of the agreements in 1967, and the "paper trail" runs right up into the late 1980s. This has not been a case where one or both of the parties to the agreement were not "paper savers" and substantial gaps existed in the documentary evidence.

46.2 However, a very important document has not been produced by MGM/UA. The evidence indicates that UA had a standard operating procedure whereby a contract summary or abstract was created by the legal department based on the terms of the Distribution Agreement, such as the one in this case. The procedure required the attorney primarily responsible for documentation of the agreement to prepare the contract summary. Said contract summary would state in brief memorandum form the precise deal points of the agreement, such as the royalties to be paid or collected, the term of the agreement, the time for making payments, the persons entitled to various notices, delivery dates, territory definitions, advertising limits, print limits and other crucial elements of the agreement. Such contract summaries were distributed to all of the "need to know" departments, such as the accounting department and the sales department. It is not surprising that such a system was in place. With hundreds, perhaps thousands, of distribution contracts in effect concerning the various UA motion picture rights, and in view of the practice of using contracts that ran as much as thirty and forty pages of single-spaced typewritten text, much of which contained convoluted and

redundant legal verbiage, it would have been very difficult for the operational departments of the business to function without a brief, concise and accurate summary of each of the essential terms of each contract.

46.3 The contract summary for the Distribution Agreement and the Financing Agreement in this case has not been produced by MGM/UA. MGM/UA has stated that a thorough search of the records has been made, and the contract summary cannot be located. The Special Master accepts that statement as true, and there in no suggestion that MGM/UA has recently suppressed evidence in the defense of this case. Jacobs, the attorney primarily responsible for documentation of these agreements in 1966 and 1967, has stated that sometimes contract summaries were not prepared because the attorneys were too busy to get around to the task. The testimony is not convincing. Herbert Schottenfeld, a principal executive at UA in 1966 and 1967, also volunteered that sometimes these contract summaries were not prepared as they should be.

46.4 It is clear that if a contract summary created by the attorney primarily responsible for the documentation of the agreements took a certain position concerning the term of the agreements, such evidence would be significant in binding UA to that interpretation.

46.5 It is appears more likely than not that a contract summary was initially prepared and distributed within the UA operational departments. It necessarily follows that the other documentary evidence which is available, that is very likely to have been created based on the missing contract summary, becomes probative to

help determine the contents of the missing contract summary.

46.6 It is most likely that Anne Templeton ("Templeton") and Stephen Elsky ("Elsky") obtained the information they had and expressed in their testimony from the contract summary. Their respective job functions did not provide for the analysis of a forty-three page distribution agreement. Yet both Templeton and Elsky expressed opinions and beliefs to the effect that UA's distribution rights terminated on August 4, 1978. This is particularly likely because one could not find the date of "August 4, 1978" expressed in the Distribution Agreement on its face. The date of August 4, 1978 emerges from the date of the first general release. The circumstantial evidence is very compelling that a contract summary adverse to UA's present position did exist between 1968 and 1975.

46.6 Therefore, the documents created by UA and the conduct of UA occurring after the agreements were signed has been received for a purpose different than the usual purpose for receiving evidence of conduct after an agreement is made, such as where the two parties to a contract take certain actions that help define otherwise ambiguous terms of the prior writing. For this reason, the fact that plaintiffs were not contemporaneously aware of said documents, a point which has been raised by the defendants, becomes immaterial.

47. Some of the most significant pieces of evidence with respect to UA's conduct that tends to confirm that the parties intended the Distribution Agreement to terminate ten years after the first general release of the

Picture, and not run in perpetuity as MGM/UA now contends, are as follows:

47.1 On August 14, 1978, Farber, a very significant UA executive, called Robert A. Kline of King Features, who represented the Producer. Farber stated that the Distribution Agreement had ended that day and wanted to discuss renewal terms.

47.2 On June 18, 1979, Daniel J. Lobel of UA in New York wrote to Jack McLaughlin of UA in Cincinnati and stated: "... in August, 1978, when we lost our rights to YELLOW SUBMARINE, ..."

47.3 On June 7, 1979, Barr B. Potter of UA informed Steven Elsky as follows: "Although our distribution rights to the above picture [YELLOW SUBMARINE] have expired, you may continue to distribute this picture until further notice." Copies of this memorandum were sent to Farber.

47.4 At least six distribution contracts prepared by UA with Canadian television stations in the 1973, 1974 and 1975 period of time state that the rights to distribute Yellow Submarine will expire on August 4, 1978. Other contracts prepared by UA with European distributors in 1975 and 1977 state that the rights to distribute Yellow Submarine will expire on August 4, 1978.

47.5 In June, 1981, when UA was in the process of licensing the vast part of its feature film library for home video distribution by Magnetic Video, it informed Magnetic Video that it was not able to allow Yellow Submarine to be distributed for home video, because it was not "... able to clear [Yellow Submarine] for Home Video Purposes..."

47.6 In June, 1982, A. Frank Reel of the UA legal department stated in a memorandum to Anne Templeton of the newly formed home video department, that "...I do not believe we can grant home-use cassette and disc rights in subject picture [Yellow Submarine]."

47.7 On March 25, 1971, Dean Stolber of the UA legal department wrote to Bill Bernstein of UA, in response to inquiries concerning UA's rights to Yellow Submarine, stating: "... We have not been granted any non-theatrical distribution rights in the picture."

48. The Special Master has concluded that term of the Distribution Agreement was for ten years and that MGM/UA's distribution rights ended on August 4, 1978.

49. The foregoing conclusion is based on an interpretation of the Distribution Agreement, consisting of twenty-five typewritten pages and the Financing Agreement, consisting of forty-three typewritten pages, taken together, as further defined by all of the parol evidence received in the case.

50. Initially, the Producer wanted a distribution term for only seven years. Exhibit 30 is a memorandum dated April 26, 1966 that starts with the phrase "Nat Lefkowitz and Bernie Wilens of the William Morris Agency submitted to us a proposed deal for a Beatle cartoon feature upon the following terms and conditions:" and paragraph 7 states: "UA will receive a theatrical distribution license only for a period of seven years from the first release of the picture, and television distribution rights will remain with King Features. The Beatles want United Kingdom distribution rights, but the Morris office has objected."

51. UA's standard negotiation position with respect to the term of distribution rights was that they should be granted in perpetuity. Eventually, the negotiators settled on a term of ten years. The memorandum by David Picker [Exhibit 301] states: "[T]he term of distribution is ten years, after which we will have our usual joint-control clause including the usual "buy or sell."

52. Paragraph 10 of the Distribution Agreement grants to UA the distribution rights "... for a period of ten (10) years from the first general release of the Picture..." and requires UA to notify the Producer upon the occurrence of the first general release. The first general release occurred on August 4, 1968.

53. MGM/UA contends that paragraph 13 of the Financing Agreement has the effect of granting the distribution rights in perpetuity. Paragraph 13 recites the ten-year term as stated in the Distribution Agreement. Paragraph 13 then provides that "upon the expiration or sooner termination of the distribution rights" UA and the Producer shall have "joint control over the further distribution, exploitation, exhibition, sale or any other disposition whatsoever of the Picture..." An entire page fourteen of the agreement is devoted to complex provisions concerning "buy-or-sell" rights.

54. The penultimate paragraph of Paragraph 13 states: "Notwithstanding anything to the contrary contained herein or in the Distribution Agreement, it is hereby specifically understood and agreed that, until and unless Producer has exercised the aforesaid 'buy-or-sell' provisions with respect to the Picture, United's sole and exclusive distribution and exploitation rights with respect to the Picture shall automatically continue and endure."

For convenience, this language will be referred to as the "notwithstanding clause."

55. A strict reading of the language quoted above in paragraph 54 would tend to support the position taken by MGM/UA. The Special Master agrees that the word "notwithstanding" is used in contracts to mean "in spite of" or "despite" or "without hindrance or obstruction from." However, the interpretation asserted by MGM/UA would totally vitiate the express ten-year term for which the parties had negotiated. A contract must be interpreted so as to give effect to the mutual intention of the parties at the time of contracting, so as far as their intention is ascertainable. Particular clauses of a contract are subordinate to its general intent. Repugnancy in a contract must be reconciled, if possible, by such an interpretation as will give affect to the repugnant clauses, subordinate to the general intent and purpose of the whole contract. Applying the foregoing general rules of contract interpretation, is there any other explanation of the meaning of the "notwithstanding" provision in Paragraph 13?

56. Plaintiffs suggest that Bursten believed that the paragraph meant that UA could still distribute the Picture after the expiration of the ten-year term, but could not license or assign rights to the Picture. As argued by plaintiffs, this provision would have given UA the valuable right to list the motion picture in its catalogue.

56.1 Defendants belittle this argument, but the argument does provide for a reasonable interpretation of the contract without doing violence to one of the primary elements of the agreement.

57. Defendants point to the fact that Bursten's memorandum dated August 15, 1966, in paragraph 18, makes a request for a change in Paragraph 13. From that fact they argue that Bursten was well aware of the provisions of Paragraph 13, and the Producer is bound by the plain meaning of the words. The argument assumes too much, and in fact, tends to defeat the position urged by MGM/UA. Paragraph 18 of Bursten's memorandum asks that the unnumbered paragraph before the "notwithstanding" language be deleted as being unnecessary. The final version retained the so-called "unnecessary" paragraph. It is similar to Bursten's comments in paragraph 16 of his memorandum where he stated that "...we have found that "general release" is not always a readily ascertainable date; and we would request that you make it 10 years from execution of this agreement." The final version of the Financing Agreement retained the reference to "general release date" as the triggering event to start the ten year term running. With respect to a part of Paragraph 13 of the Financing Agreement and a part of Paragraph 10 of the Distribution Agreement, Bursten can be seen as suggesting a specific change, and in each instance the specific change was apparently rejected by Jacobs, because the final versions of the agreements remained unchanged as to said points. As to these two items, plaintiffs would be bound by the final versions, because the parol evidence indicates that it was the subject of discussion and resolution. In sharp contrast is the fact that Bursten never commented on the "notwithstanding" provision and therefore the same cannot be said about said provision in Paragraph 13.

58. Also in contrast, Bursten stated in paragraph 32 of his memorandum that "The last 2 words of the first paragraph of Art.10 ("in perpetuity") should be changed to: 'for 10 years'. (a 10-year distribution license period is reflected in Art.13 of the Financing Agreement, which was the subject of Comment #16 supra.)" [sic] To avoid any confusion with respect to the previous quotation, and because of the writing style used by Bursten in the memorandum, the entire quotation has been underlined for clarity and not for particular emphasis. In this instance, the change was made by Jacobs as requested by Bursten, and appears in the final version. Having in mind that Jacobs was the draftsman, and having in mind that a ten-year term for distribution rights was basic to the entire transaction, and having in mind that there is not a scintilla of parol evidence offered by MGM/UA to support its extreme position, it is clear that it must be rejected as being the product of skilled litigation advocacy and not an acceptable contract interpretation.

58.1 Lastly, it is to be noted that the Financing Agreement was in some sense ancillary to the Distribution Agreement. It was a security agreement to protect UA as the lender of the production funds. It is doubtful that the parties intended to so drastically expand distribution rights, as MGM/UA now contends, and yet chose to place the provision in Financing Agreement and not in the Distribution Agreement. Such interpretation would do violence to the intention of the parties and to common sense.

59. Plaintiffs are not estopped to assert their rights with respect to home video distribution because they did not seek to stop UA's distribution of the Picture for

motion picture theater exhibition and television viewing. Plaintiffs seek no monetary damages for such conduct. A party does not waive future contractual rights by failing to enforce current contractual rights, in the absence of detrimental reliance by the other party. MGM/UA can point to no evidence of detrimental reliance on its part on which to base an estoppel against plaintiffs.

60. The Special Master has concluded that the grant of rights to UA under the Distribution Agreement and the Financing Agreement did not include the right to distribute or exploit the Picture in the home video market or medium.

61. Where the grantee prepares the grant of rights, rights not expressly granted are deemed to be reserved. This principle of interpretation is similar to the rule that requires that uncertainties in contract language should be resolved against the party who caused the uncertainty to exist.

62. Jacobs admitted that the "deal" that had been negotiated between the principals was for a grant of theatrical rights and television rights to UA.

63. The grant of rights to UA is contained in Paragraph 10 of the Distribution Agreement. The first unnumbered paragraph is exceedingly broad and grants rights to UA for a ten-year term. The broad language of the first unnumbered paragraph is modified by the succeeding unnumbered paragraphs. Considering all of the parol evidence, the succeeding unnumbered paragraphs are not merely illustrative of the initial grant, as defendants urge. It is interesting to note that none of the internal legal memoranda from the UA or MGM/UA

legal department analyzing the Distribution Agreement even suggest that the first unnumbered paragraph of the Paragraph 10 is a broad and unfettered grant of rights, and that the subsequent paragraphs are merely illustrations of the grant. The argument is entitled to no weight.

64. The second unnumbered paragraph defines "rights" by stating that it shall include "so-called "theatrical" rights in the Picture including theatrical sub-gauge distribution rights.

65. The second unnumbered paragraph further defines "rights" to include use by "... television and by any other method or device now known or hereafter conceived or created."

66. Later, in the same unnumbered paragraph, it is stated that "... the term "theatrical" rights as used herein shall ... include the right to rent, lease, license, exhibit, distribute and otherwise deal in and with respect to the Picture in any and all forms and methods of pay, toll or subscription television and that the term "television" as used herein shall, for all purposes of this Agreement and the aforesaid Financing Agreement, specifically exclude all forms and methods of pay, toll or subscription television."

67. A consideration of the language referred to in paragraphs 66 and 67 requires an "academy" award for drafting ambiguity to Jacobs as the draftsman. It is no wonder that Rudolph Flesch has railed at lawyers for drafting obfuscating, confusing, redundant and misleading legal documents.

68. The third unnumbered paragraph of Paragraph 10 imposed a waiting period of twenty-four months on

UA after the first general release of the Picture before it could distribute the Picture on television.

69. The fourth unnumbered paragraph further defined "rights" to include the right to use the Picture on ships at sea, aircraft, the United States armed services and installations, the American Red Cross and veterans hospitals.

70. Paragraph 14 of the Distribution Agreement relates to UA's rights to enter into subdistribution agreements. The original draft prepared by Jacobs stated that UA had the right to enter into subdistribution agreements for "non-theatrical and /or television rights in the Picture..." Bursten objected to this provision in paragraph 33 of his letter to Jacobs dated August 15, 1966, and requested that " ... all reference to non- theatrical rights ... be deleted from the Agreement." Jacobs modified the paragraph by deleting "non-theatrical" in the title of the relevant subparagraph, and deleting "non-" from the body of the relevant paragraph and replacing the deleted "non-" with a dash- line covering the space of five character spaces on the typed line. Paragraph 24 of the draft Distribution Agreement prepared by Jacobs relates to the division of distribution income. It provided that UA would be entitled to 50% "...[F]rom non-theatrical (other than television) gross receipts..." This paragraph was not changed in the final signed copy of the Distribution Agreement. In fact, pages 18A of both documents are exactly the same, including the "delete" box representing the elimination of 80% of the space for typing on the page, because of an effort to continue to use UA's mimeographed forms. These matters merely serve to emphasize the ambiguous nature of the form contract

patched together by Jacobs. They do not detract from the interpretation given to the contract by the Special Master, as set forth above.

71. Both sides to this litigation sought to introduce evidence of custom and practice in the industry to assist in the definition of the term "theatrical" and the phrase "non-theatrical." The term "theatrical rights" was used in the final version of the Distribution Agreement, and both "theatrical rights" and "non-theatrical rights" were terms used in the earlier draft. All of the witnesses who gave opinions as to the meaning of various terms were qualified to testify concerning such matters. As will be discussed later, the opinion of some witnesses is entitled to greater weight than others.

72. Bursten was of the opinion that "theatrical" meant the right to exhibit the Picture in public theaters to a paying audience. Television rights are defined in the agreement, and are not the subject of dispute. He was of the opinion that all other rights were "non-theatrical." Bursten's definition is entitled to great weight, because he was one of the two persons vitally involved in the actual contract documentation.

73. Picker, the key executive for UA at the time of the contract negotiation, agreed generally with Bursten's opinion in testimony given at the trial through his deposition.

74. The definition given of theatrical rights given by Jacobs is not inconsistent with that of Bursten. It in also noteworthy that Jacobs has admitted that he avoided more clearly defining key terms in the contract because that would have presented a problem with Bursten.

75. Jacobs conceded that he intentionally refrained from an express reservation of non-theatrical rights so as to permit the issue to be resolved by later interpretation, i.e. lawsuit. It was his view that if non-theatrical rights were expressly excluded from the rights granted to UA, there would be no possible room for argument. His view was that if theatrical rights were simply granted to UA, with nothing else stated, there might be some basis for later discussions, i.e. a possible ambiguity would exist. He did not express this view to Bursten, and the view ran expressly contrary to the stated intentions of the parties.

76. Melvin Sattler ("Sattler") was called as an expert witness by defendants. Sattler has worked for Universal Pictures in the Legal Department or Business Affairs since 1947. He took an extreme view. It was his opinion that there are no "non- theatrical" rights, and refused to concede that it was a term worth defining. He called the term a misnomer. He indicated that Universal Pictures always used the term "theatrical and allied rights" in its contracts.

76.1 Sattler's opinion is in sharp contrast to the fact that in 1975, UA itself used a definition of non-theatrical rights in one of its contracts. Exhibit 904 is a contract between UA and Chartoff-Winkler Productions, Inc. In Paragraph 7, entitled Grant of Rights, after defining "theatrical" rights and "television" rights, the following definition of "non-theatrical" rights is set forth: "... and that the term "non-theatrical" rights shall be deemed to mean the right to rent, lease, license, exhibit, distribute and otherwise deal in and with respect to the Picture in connection with any and all places, forms and methods not encompassed by the terms "theatrical" rights

and "television" rights as said terms are hereinabove defined."

76.2 Sattler's opinions are colored by his own lengthy but narrow experience. His opinions cannot be said to relate to "industry custom and practice." They can be given very little weight in this case.

77. Sheldon Mittelman ("Mittelman") was called as an expert witness by defendants. Mittelman was admitted to practice law in 1958 and has worked in the legal aspects of the entertainment industry since 1958, initially for Screen Gems, a division of Columbia Pictures and later for MCA Universal. His views were less extreme than those of Sattler. It was his opinion that non-theatrical rights would not include what is now known as the home video market, but the opinion did not relate back to 1966-1967. He conceded on cross-examination that a grant of theatrical rights would not involve all rights. He conceded that there was no fixed custom and practice with respect to this terminology. However, he did concede that the intention of the parties to the contract should govern its interpretation. He used a definition from the industry contracts with the three craft guilds which evolved in the 1970s. This definition of rights is not helpful in this case, because it relates to a period of time many years after the contracts in question were executed. To be relevant to an interpretation of the contracts in question, the custom and practice must be as of the time the contracts were executed.

78. Richard K. Rosenberg ("Rosenberg") was called as an expert witness by defendants. Rosenberg in an attorney licensed in New York and New Jersey. After practicing law in New York and New Jersey from 1967

until 1980, he became involved in motion picture production and then motion picture distribution. He is currently an independent producer and consultant. He has co-authored a work entitled Entertainment Industry Contracts: Negotiating and Drafting Guide (1989). Rosenberg's opinion was that the home video market as it exists in 1990 is not a part of the non-theatrical market as that term was used in 1966 and 1967. He is the only witness called by either side that appeared to be in the status of a "hired gun." His opinions were more extreme than Sattler's and his experience in the motion picture industry spans a much shorter period of time, and involves less breadth of experience, compared to the other expert witnesses. Rosenberg was not even significantly in the motion picture business at the time the contracts at issue were executed. His opinion is based primarily on two undocumented and anecdotal discussions with persons in the motion picture industry.

78.1 Exhibit 6 is an extract from the 1989 edition of Rosenberg's book. He states "... 'non-theatrical' distribution is as a word of art in the motion picture industry limited to a relatively specialized market, which includes airplanes, trains and ships, schools, colleges, and other educational institutions, libraries, governmental agency facilities, churches ... and construction camps. Thus, for example, all forms of television exhibition and distribution and retail video cassette distribution are excluded from the motion picture industry definition of non-theatrical distribution." He fails to state that based on the contracts received in this case, and the testimony of "old-timer" legal experts, television exhibition and distribution is excluded from all other categories, because there is a

practice of dealing with it as a special and separate medium. The last sentence on the extracted page is really a concession of plaintiff's position herein, where he refers to "the traditional theatrical and television markets and growing video cassette market." [emphasis added]

78.2 The Special Master concedes that an expert witness may rely on hearsay discussions, but such reliance is a factor to consider when deciding the weight to be given the opinion based thereon. Rosenberg considered "high-end rights" and "low-end rights" based on later economic market events, rather than considering the parties' intent at the time the contract was executed. Rosenberg's insistence that the term "theatrical rights" had the same definitive meaning in the industry, based on custom and practice, as does the sizing of lumber as 2" by 4" in the building industry, despite the fact that such pieces are really 1½" x 3½", illustrated a tunnel vision or bias that makes his opinion entitled to little or no weight.

79. Seth M. Willenson ("Willenson") was called as an expert witness by plaintiffs. Willenson has been actively engaged in various aspects of the motion picture and television industry since 1970. Initially, he was engaged in the acquisition of rights for, and the distribution of feature films, for the non- theatrical market for colleges, universities and similar groups. In that capacity, he held 16-millimeter distribution rights with 20th Century-Fox, Paramount, MGM, RKO and Disney Studios. Later he was employed by RCA in charge of programming for the new video disc product marketed exclusively by RCA. It was Willenson's opinion that "non-theatrical" rights meant all rights that were not theatrical rights or television rights. It was his opinion

that in the 1966 and 1967 there were three categories of rights: theatrical, television and non-theatrical. it was his opinion that the home video market as it is known in 1990 is an outgrowth of the non-theatrical distribution of 16-millimeter feature films in the 1960s.

80. The opinions of Bursten, Picker, Jacobs and Willenson are consistent with the economic realties as they existed in 1966. The profits in the entertainment business were largely in the use of films for display at public motion picture theaters, free television and pay television. UA got the rights to the two most important markets, and did not get the rest. The fact that the home video market did not exist at the time does not expand the grant of rights.

81. The Special Master has concluded that none of the evidence concerning custom and practice is probative of anything other than to compel the conclusion that there was no defined custom and practice in the motion picture industry in 1966 and 1967 concerning the meaning of the terms "theatrical rights" and "non-theatrical rights." Therefore, the evidentiary exercise returns the analysis to the proper interpretation of the agreements so as to carry out the intention of the parties. In addition, the authors and negotiators of the agreements at issue tend to agree on the definition of the terms. Accordingly, based an all of the evidence, the Special Master concludes that in 1966 and 1967, the parties understood that theatrical rights meant the right to exhibit the Picture in public theaters to a paying audience. Television rights are defined in the agreement, and are not the subject of dispute. All other rights were non- theatrical.

82. The future technology phrase in Paragraph 10 which states "... and by any other method or device now known or hereafter conceived or created" does not support defendants' position.

83. Bursten has stated that he and Jacobs discussed the issue of new technology. He stated that they agreed that new technology in the theatrical or television area would belong to UA and new technology in the non-theatrical area would belong to the Producer. In other words, the new technology right follows the particular medium or art form in the which the original right is granted and exercised. This interpretation is logical and supported by common sense.

84. The form language used in the contract states: "... and shall also include the right to project, exhibit, reproduce, transmit and perform the Picture and prints and trailers thereof by television and by any other technological, mechanical or electronic means, method or device now known or hereafter conceived or created." [emphasis added] When a pre-recorded video cassette is sold by MGM/UA to a home user or an operator of a video cassette rental depot, the sale does not involve the acts of projection, exhibition, reproduction, transmission or performance of the Picture. In the phrase relating to television rights, the contract does use the phrase "... include the right to rent, lease, license, exhibit, distribute and otherwise deal ...", so the drafters of the form contract are presumed to have made some distinction between "project, exhibit, reproduce, transmit and perform the Picture" on the one hand and "rent, lease, license, exhibit, distribute" on the other. To the extent there is an

ambiguity, it must be construed against UA, as the drafter.

85. The law of the State of New York is applicable to a resolution of the contractual dispute between the parties. The parties have supplied the Special Master with the decisional law believed by them to be applicable to this dispute. In making the legal decisions necessary with respect to the admission of parol evidence and the application of said evidence, and the interpretation of the Distribution Agreement and the Financing Agreement in the light of the evidence, the Special Master has applied the law of the State of New York. Since the role of the Special Master is limited in making legal conclusions, it is deemed inappropriate to burden this report with citations to said decisional law.

86. Based on the meaning of the contractual rights between the parties, as interpreted by the Special Master, the Special Master concludes that defendants have violated plaintiffs' rights as alleged.

87. Defendants have asserted a counterclaim against the Hearst Corporation for fraud. The essential thrust of the claim is that Bursten fraudulently represented during the negotiations with Jacobs that the Producer did not have "non-theatrical" rights to the Picture, and could not got said rights. The counterclaim has not been proven.

88. Bursten represented the joint venture, consisting of the Hearst Corporation and Subafilms, Ltd., which became known as the Producer in the contracts at issue. Bursten did not represent Subafilms, Ltd. Although there is no direct evidence on the question, it is probable that a representative of Subafilms, Ltd. did tell Bursten that

the joint venture did not have and could not get the non-theatrical rights. There is no evidence that Bursten was untruthful when he informed Jacobs that his client, the joint venture, did not have the non-theatrical rights and could not got them.

89. The fact that a change in the ownership of the rights occurred in 1987, twenty years after the contracts in question were signed, has no bearing on the conduct of Bursten when the contracts were negotiated.

90. Plaintiffs have not tortiously interfered with the contractual rights of any defendant. Since the Special Master has found that MGM/UA did not have the right to distribute the Picture for home video use, it follows that plaintiffs were entitled to use legal means to stop said unauthorized use by defendants.

91. The Special Master concludes that the conduct of MGM/UA, as found above, constitutes a breach of contract and a copyright infringement. As to Warner Bros. and Warner Home Video, their liability is based on copyright infringement. They were not parties to the agreements and cannot be held liable for breach of contract.

92. The Special Master finds that the distribution of Yellow Submarine in the home video market by defendants has wrongfully deprived plaintiffs of their valuable opportunity to exploit their retained rights in said market.

93. The Special Master finds that the home video rights had a reasonable market value of $3,000,000.00 at the time they were misappropriated and converted by defendants. The value of said rights have been essentially

destroyed or consumed by the conduct of the defendants. The Special Master finds that there is a minor residual value in said rights in the sum of $150,000.00. Therefore, plaintiffs have suffered damage, as a direct and proximate result of the conduct of defendants, in the sum of $2,850,000.00. Defendants are entitled to a credit of 20% from said sum by reason of the retained ownership rights of UA. Accordingly, plaintiffs' net compensatory damages shall be in the sum of $2,228,000.00.

94. Because defendants are guilty of copyright infringement, the Special Master could award as compensatory damages, in the alternative, all profits gained by defendants, as the copyright infringers. The Special Master has found that defendants have received gross revenues of at least $3,309,000.00. Defendants are entitled to a deduction for the reasonable and necessary expenses connected with the generation of said gross income, but they have the burden of proof to prove said expenses with reasonable certainty. Defendants have failed to carry their burden of proof with respect to the amount of expense to be charged against the gross revenues. Defendants claim expenses and deductions which would reduce the gross revenue of $3,309,000.00 to approximately $529,000.00. On the basis of the meager evidence submitted by defendants in support of said claims, the expense ratio of 85% of gross revenue is unacceptable.

94.1 It is clear that some expense allowance would be appropriate, but the Special Master would be required to speculate in order to arrive at such an amount. Since plaintiffs are not bound by the strong possibility that defendants did a poor job of marketing Yellow Subma-

rine in the home video market, and since defendants have presented inadequate evidence of expense offsets, the Special Master has concluded that the appropriate measure of damages to be used is for the loss of value, and will not make an award of damages based on gross or net revenues received by defendants.

95. The Distribution Agreement and Financing Agreement created a fiduciary relationship between the Producer and UA, and MGM/UA succeeded to that fiduciary relationship. The Producer entrusted its copyrighted film to UA to exploit, to generate revenue therefrom and to divide that revenue with plaintiffs. In so doing, UA was entrusted with the dominion and control over the valuable property of the Producer. This entrustment created a limited trust relationship between the parties, notwithstanding the boilerplate recital in the Distribution Agreement to the effect that no partnership or joint venture was created by the agreement. MGM/UA is correct in asserting that no partnership or joint venture was created by the terms of the Distribution Agreement or the relationship between the parties. However, the existence of a partnership or joint venture is not necessary in order to support the conclusion that a trust relationship existed.

95.1 In purporting to license rights in the Picture which it did not have, MGM/UA violated the agreements with plaintiffs. MGM/UA further violated the agreements by engaging in this conduct without the approval of plaintiffs, long after its exclusive distribution rights in the Picture had expired. However, in so doing, defendant did not breach the limited fiduciary relationship with plaintiffs. The fiduciary relationship between the contracting

parties related to an accounting for and the payment of the distribution fees to which plaintiffs were entitled, and did not relate to the entire contractual relationship. MGM/UA's conduct, although not justified pursuant to the Special Master's interpretation of the agreements, did not dishonestly deprive plaintiffs of distribution fees to which they were entitled, such as might be the case if it had supplied false accountings for distribution fees. The conduct of MGM/UA with respect to the home video distribution was open and obvious, as compared to clandestine and deceptive. Therefore, the Special Master denies the claim for an award of punitive damages.

95.2 The law of New York does not impose tort liability for the breach of a contract. Even under California law, plaintiffs would not be entitled to punitive damages for MGM/UA's breach of contract. No special relationship exists between the parties, except in the limited sense addressed in paragraph 95.1.

96. Plaintiffs are entitled to injunctive relief so as to preclude defendants from continuing any home video distribution of Yellow Submarine, consistent with conclusions reached herein.

97. The Special Master finds that plaintiffs have standing to bring their copyright claims.

98. The "buy-or-sell" provisions of the Distribution Agreement related only to the rights granted to UA. Since home video rights were not granted to UA, they are not subject to the "buy-or-sell" provisions of the Distribution Agreement. Accordingly, said provisions do not bar plaintiffs from asserting their copyright remedies.

99. Notwithstanding the conduct of Warner Bros. and Warner Home Video outside of the territorial limits of the United States, their conduct remains a violation of the United States copyright laws under the facts of this case.

100. The rights asserted by plaintiffs in this case are not barred by the Statute of Limitations set forth un 17 U. S. C. § 507. The acts of infringement occurred with the period of the Statute of Limitations.

101. Plaintiffs are not estopped to assert their copyright claims, and have not waived said claims.

102. Plaintiffs have proven a copyright infringement. Pursuant to 17 U.S. C. § 505, they are entitled to an award of attorneys fees.

102.1 Plaintiffs shall lodge with the Special Master, and serve defendants, with their claim for attorneys fees in the form of a detailed declaration within 15 days of the date hereof. Defendants may exercise limited and expedited discovery with respect to said claim. Defendants shall file and serve a response to said claim within 15 days of service of plaintiffs' claim, unless the time is extended by stipulation of the parties.

102.2 Upon receipt of the response of defendants to plaintiffs' claim, the Special Master will contact counsel for the purpose of establishing a procedure for the purpose of resolving said issues, so that a Supplemental Report concerning attorneys' fees may be made by the Special Master.

103. Counsel for plaintiffs is directed to lodge with the Special Master and serve opposing counsel with a proposed judgment within 15 days of the date hereof,

in accordance with the determinations set forth herein. The judgment shall be in the form that plaintiffs intend to propose be entered by the Court, after the filing of this report with the Court.

104. Within 15 days after service of the proposed judgment on counsel for defendants, defendants shall lodge with the Special Master and serve opposing counsel with such objections to the proposed judgment as they deem appropriate.

105. Upon receipt of said objections, if any, the Special Master will contact counsel for the purpose of determining whether or not a hearing should be conducted concerning the proposed judgment. The purpose of the procedure set forth in paragraphs 102, 103 and 104 is to clarify the issues and perfect the record to the greatest extent possible, so that when disputed matters are ultimately presented to the Court, the area of controversy will be as narrow and focused as possible, thus contributing to the efficient administration of the Court's business.

105. The parties are authorized, by written stipulation, without the prior approval of the Special Master, to extend the time limits for any of the procedures set forth in paragraphs 102, 103 and 104, as they deem appropriate and necessary.

106. The Special Master contemplates that the procedures to be used in connection with paragraphs 102, 103 and 104 shall be similar to the procedures used in connection with California Rules of Court, Rule 232 and Civil Code Section 1717.

101. After completion of the procedures contemplated by paragraphs 102, 103 and 104, the Special

Master will lodge the original of this report with the Court, and will notify counsel of said lodging, so that they may take appropriate steps with respect to requesting entry of judgment.

DATED: September 14, 1990

/s/ Lester E. Olson

Lester E. Olson

Special Master

DOCUMENT 2

FILE

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SUBAFILMS LTD. and THE HEARST CORPORATION, a Joint Venture, Plaintiffs, vs. UNITED ARTISTS CORPORAION, MGM/UA COMMUNICATIONS CO., and WARNER BROS., INC., Defendants.	CASE NO. 88 6626 JGD (Tx) SUPPLEMENTARY FINDINGS OF FACT re ATTORNEYS' FEES AND OTHER CLOSING MATTERS

1. Pursuant to the directions contained in the Special Master's Report dated September 14, 1990, plaintiffs served and filed a proposed Judgment and an Application for Attorneys' Fees and other litigation expense. Thereafter, in a timely manner, defendants served and filed their written objections to said proposed

judgment and to the application for attorneys' fees and litigation expense.

2. On December 12, 1990, the Special Master conducted a hearing on the objections and the application for attorneys' fees and litigation expenses. Plaintiffs appeared by Charles N. Shephard of Greenberg, Glusker, Fields, Claman & Machtinger. Defendants appeared by Louis P. Petrich and Patricia Duncan of Leopold, Petrich & Smith, and the hearing was reported by Marsha L. Gudgel, C.S.R. 5481, 1036 llth Street, San Pedro, CA 90731; (213) 547-4019.

3. At the conclusion of the hearing on December 12, 1990, counsel for plaintiffs was directed to serve and file a revised proposed judgment. Counsel for plaintiffs was also authorized to file and serve a supplement to their previous application for attorneys' fees and litigation expenses to permit the Special Master to take into account attorneys' fees incurred after September 30, 1990.

4. Leave was granted for defendants to serve and file objections to said revised proposed judgment and any supplementary application for attorneys' fees, and plaintiffs were granted leave to respond thereto, whereupon the matter would stand submitted.

5. The Special Master has received the revised proposed judgment, supplementary application for attorneys' fees and defendants' objections thereto, and has considered said matters, and now makes the following additional findings of fact and determinations of matters raised by said pleadings:

6. The Special Master has revised the proposed judgment to change the recital of certain procedural

matters, partly based on the suggestion of defendants and partly on the suggestion of plaintiffs. Except for said changes, the Special Master overrules the defendants' objections to the proposed judgment, and recommends that the proposed judgment, in the form attached hereto marked Exhibit A, be made by the court. Nothing would be gained by setting forth in detail the reasons the Special Master has concluded that said objections should be overruled. Essentially, the positions urged by plaintiffs in their "Reply Memorandum Concerning Form of Proposed Judgment" served January 18, 1991 are correct.

6.1 Without limiting the generality of the foregoing determination, the Special Master specifically agrees with the imposition of prejudgment interest at the rate of 10% per annum, instead of 7%, as alternatively urged by defendants. It is true that prejudgment interest under California law in this case would be 7% and not 20%. However, federal law should apply in this case. The method of calculation set forth by plaintiffs at page 8 of their Reply Memorandum served January is, 1991 is correct and actually favors defendants.

6.2 It will be necessary to make a last minute calculation with respect to the exact amount of prejudgment interest, at the time the court enters the judgment, and said amounts can be inserted in the judgment.

7. The Special Master finds that plaintiffs' necessarily incurred substantial attorneys' fees and litigation costs in prosecuting this matter. Based on the application filed by plaintiffs, as supplemented, the Special Master finds that the following sums are reasonable and that they should be paid pursuant to 17 U. S. C. § 605:

7.1 The sum of $469,244.25 for attorneys' fees from inception of the case through August 31, 1990.

7.2 The sum of $4,898.75 for attorneys' fees for work performed in September, 1990.

7.3 The sum of $8,258.75 for attorneys' fees for work performed in October, 1990.

7.4 The sum of $19,946.25 for attorneys' fees for work performed in November, 1990.

7.5 The sum of $6,728.75 for attorneys' fees for work performed in December, 1990.

7.6 The total of said sums, set forth in paragraphs 7.2 through 7.5 is $509,076.75

7.7 A special finding is made concerning the hourly rate charged for the work of Bertram Fields. An hourly rate of $400 is reasonable and proper, considering the skill of counsel, and the efficient manner in which the case was tried. Although the Special Master has more difficulty in evaluating the efficiency of counsel as to matters which occurred before the trial, it is reasonable to assume that the efficiency with which the case was tried before the Special Master also related back to the pretrial phases. The case took six days to try before the Special Master, and without the efficiency and skill of lead counsel, assisted, it is true by the professional cooperation and skill of opposing counsel, the case could have required twelve days to try. It is clear that Bertram Fields exercised sound judgment in delegating tasks to associate attorneys working under his supervision. Had he not done so, then it would be more difficult to find that the total hours spent by him, at the higher hourly rates, was reasonable. Plaintiffs' counsel were opposed at every

stage of the litigation by very skilled counsel for defendants. Although counsel on both sides conducted themselves in a highly professional manner, the trial, and pretrial proceedings, were long and arduously litigated.

8. In addition to seeking an award of attorneys' fees, plaintiffs have applied for an allowance of certain litigation expenses beyond the costs that would be allowed as a matter of course to the prevailing party as fixed by a memorandum of costs filed after judgment is entered.

8.1 The Special Master finds that certain of the litigation expenses requested by plaintiffs are reasonable, necessary and should be allowed. Certain other claims are not reasonable, and should be subsumed as overhead costs not attributable to defendants.

8.2 The litigation expense which the Special Master finds is reasonable, necessary and which should be imposed on defendants is as follows:

8.2.1 Travel expense for the taking of depositions and the expense to bring a necessary witness from Florida to testify at the trial, fixed in the sum of $20,144.24.

8.2.1.1 Plaintiffs had claimed $22,329.69, but this sum was disallowed by $2,185.45. The Special Master reduced the amount allowed for the trip to New York by Bertram Fields from $4,685.45 to $2,500.00. It is one thing to find that a high hourly rate is reasonable for a highly skilled litigator such as Bertram Fields, but it is another thing to find reasonable the unusually high expense of a trip to New York, when compared to the significantly lower expense for such trips incurred by associate counsel. An attorney entitled to high hourly

compensation for his professional services is not necessarily also entitled to high expenses for travel, hotel accommodations and meals.

8.2.2 Xerox copying expense has been allowed in the sum of $3,864.75.

8.2.2.1 The foregoing allowed amount is 75% of the amount claimed. The trial of the case was greatly assisted by the duplicate copies of massive amounts of exhibits and other pleadings, and for that reason the Special Master has concluded that a substantial allowance should be made for copying expense. However, some part of the copying expense should be subsumed as an overhead expense, which in this case is fixed at 25% of the whole.

8.2.3 The charges for enlargements of important documents, used at the trial, is allowed in the sum of $1,277.80.

8.2.4 Messenger service charges in the sum of $1,276.75 is allowed as necessary and reasonable.

8.2.5 Long distance telephone expense in the sum of $716.79 is allowed as necessary and reasonable.

8.2.6 Air freight (courier) expense in the sum of $568.40 is allowed as reasonable and necessary.

8.2.7 The total of said sums, set forth in paragraphs 8.2.1 through 8.2.6 is $27,848.73.

8.3 The following litigation expenses claimed by plaintiffs are not allowed, for the reason that said expenses should be subsumed as a part of overhead, and are conceptually considered when an award of attorneys' fees is made:

8.3.1 Charge for Lexis computerized legal research: $13,577.71

8.3.2 Secretarial overtime: $ 3,711.00

8.3.3 Telecopier expense: $608.51

8.3.4 Investigation services: $410.00

8.3.5 Parking and mileage $73.00

8.3.6 Attorney service $1,073.75

9. By way of summary, the Special Master finds that the reasonable and necessary attorneys' fees and litigation expenses incurred by plaintiffs in this matter, which should be paid by defendants pursuant to the authority of 17 U.S.C. S 505, is the sum of $536,925.48. Said sum has been inserted in the proposed judgment in paragraph 12 thereof.

9.1 It is most likely that defendants will object to the determinations, or some of them, made by the Special Master, and that further attorneys' fees will be incurred by plaintiffs in proceedings before the court. It is not possible to estimate such attorneys' fees, so the Special Master has included a paragraph 12.1 which can be used by the court for the purpose of inserting such additional award, if any, based on the court's determination in the proceedings before it.

10. The Special Master will deliver copies of these Supplementary Findings to counsel for the parties, and will also deliver the original of the pleadings before the Special Master to counsel for plaintiffs. As an officer of the court, counsel for plaintiffs are directed to take such steps as are necessary to lodge with the clerk of the court

the various pleadings herein, and to make such request as is necessary for entry of judgment.

DATED: January 28, 1991

/s/ Lester E. Olson
Lester E. Olson
Special Master

DOCUMENT 3

ENTERED Aug. 1991 CLOSED.

Entered
Clerk, U.S. District Court
Aug 26, 1994
Central District of
California
By Deputy

FILED
Aug 22, 1991
Clerk U.S. District Court
Central District of California
By /s/ Deputy

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SUBAFILMS, LTD. and THE HEARST CORPORATION, a joint venture, Plaintiffs, V. UNITED ARTISTS CORPORATION, MGM/UA COMMUNICATIONS CO., and WARNER BROS., INC., Defendants.	CASE NO. CV 88 6626 JGD ORDER ADOPTING THE REPORT OF THE SPECIAL MASTER, MODIFYING PROPOSED JUDGMENT, AND AND ENTERING JUDGMENT

On July 22, 1991, the Objections to the Report of the Special Master came on for hearing. Having considered the papers filed and the arguments presented, the Court HEREBY ADOPTS the Report of Proceedings Before the Special Master and Findings of Fact, Conclusions of Law and Recommendations for Judgment and the Proposed Judgment with the following modification. The plaintiffs may not recover prejudgment interest under the Copyright Act of 1976, 17 U.S.C. §§ 101 et-seq..

DISCUSSION

The district court "shall accept the master's findings of fact unless clearly erroneous." Fed.R.Civ.P. Rule 53(e)(2). This is the same standard as that used by the appellate courts to review findings by a district court. 9 Wright and Miller, Federal Practice and Procedure, § 2614 (1971). Moreover, the master's findings and credibility determinations, though not given the same weight as jury findings, are to be treated with high regard. Id. The master's conclusions of law, however, carry no weight with the court. Id.

The Special Master awarded prejudgment interest on the compensatory damage award of $2,228,000. Whether prejudgment interest is recoverable is an issue of first impression in this circuit. Defendants argue that neither the Copyright Laws nor California law provide a legal basis for this award. As this is a question of law, the Court reviews the Special Master's determination de novo.

The Copyright Act of 1976, 17 U.S.C. § 101 et seq. ("1976 Act"), does not provide for an award of

prejudgment interest[1] and the Ninth Circuit has specifically not addressed whether prejudgment interest is recoverable under the Act. In Frank Music Corp. v. Metro-Goldwyn-Mayer Inc., 886 F. 2d 1545 (9th Cir. 1989) cert. den., 110 S.Ct. 1321 (1990) ("Frank Music") , the Ninth Circuit held that prejudgment interest is recoverable under the Copyright Act of 1909 ("1909 Act"). The court stated that it expressed no opinion as to whether prejudgment interest was recoverable under the Copyright Act of 1976. 886 F.2d at 1552, n.9.

Without making explicit findings, the Special Master implies that his legal basis for awarding prejudgment interest rests in the Copyright Act. (See Report n. 2 at para. 6.1). Defendants argue that the weight of the other circuits is against awarding prejudgment interest under the Copyright Act of 1976 and the Ninth Circuit implied that prejudgment interest, although recoverable under the 1909 Act, would not be recoverable under the 1976 Act in Frank Music. The plaintiff contends that the defendants overstate their case. The plaintiffs assert that there is a split in the circuits and Frank Music made clear that prejudgment interest may well be recoverable under the 1976 Act.

The Court finds that under the Copyright Act of 1976 prejudgment interest is not appropriate. In Robert R. Jones Associates, Inc. v. Nino Homes, 858 F.2d 274 (6th Cir. 1988), the Sixth Circuit vacated the district court's award of prejudgment interest for the violation of 1976

---

[1] Nevertheless, courts may award prejudgment interest even when the governing statute is silent. Rodgers v. United States, 332 U.S. 371, 373, 68 S.Ct. 5, 7 (1947), cited in, Frank Music, 886 F.2d at 1440.

Act. The district court awarded prejudgment interest to provide an effective sanction against copyright infringement. The Sixth Circuit cited Rodgers v. United States, 68 S.Ct. 5, for the proposition that a decision whether to grant prejudgment interest hinges on whether to do so would further the congressional purposes underlying the statute. The court held that an award of damages in this case sufficiently deterred future transgression.[2]

On the other hand, the Tenth Circuit held that prejudgment interest was recoverable under the 1976 Act. Kleier Advertising, Inc. v. Premier Pontiac, Inc., 921 F.2d 1036, 1040-41 (10th Cir. 1990) ("Kleier"). In Kleier the court followed the reasoning of the Ninth Circuit in Frank Music but did not distinguish between the 1909 Act and the 1976 Act.

In Frank Music the Ninth Circuit reasoned that,

> "[j]ust as courts awarded prejudgment interest in order to provide adequate compensation to patent holders,... this same remedy should be available to copyright owners for the same purpose."

---

[2] The Sixth Circuit also opined that as the Patent Act, unlike either Copyright Act, specifically authorizes a court to award prejudgment interest, indicates that Congress believed that in giving the court in copyright infringement cases the discretion to award costs and attorneys' fees would be sufficient to enable the court to enhance the deterrent force of the law. The Ninth circuit expressly discussed this argument in Frank Music. There it stated that Congressional silence is usually just that, silence. It also held that Congress intended the Copyright remedies to not only deter future transgression but to adequately compensate the copyright holder. 886 F.2d at 1551, n. 8

886 F.2d at 1551. The defendant urges the Court to construe this holding as limited to the 1909 Act. Under the 1909 Act the plaintiff may only recover the greater of the defendant's profits or the plaintiff's actual damages, not both. Under the 1976 Act, the plaintiff may recover both the defendant's profits and plaintiff's damages. Thus, the plaintiffs would recover a windfall if it also was awarded prejudgment interest. The Court finds that argument persuasive. The actual video cassette market value of the Picture would likely be realized over time, not concomitantly with the breach. Accordingly, the Court denies the award of prejudgment interest and modifies the Proposed Judgment to reflect such finding.

Accordingly, having reviewed the findings of fact and conclusions of law of the Special Master under the standards outlined herein, the Court adopts the Report of Proceedings Before the Special Master and Findings of Fact, Conclusions of Law and Recommendations for Judgment and the Proposed Judgment except for paragraphs 11.1 and 11.2 awarding prejudgment interest which are hereby excised. Therefore, the Court ORDERS, ADJUDGES AND DECREES that the judgment proposed by the Special Master be entered as modified.

IT IS SO ORDERED.

Dated: August 22, 1991

/s/ John G. Davies
JOHN G.DAVIES
United States District Judge

DOCUMENT 4

ENTERED_____CLOSED.

LODGED
Feb. 12, 1991
Clerk U.S. District Court
Central District of
California
By /s/ Deputy

ENTERED
Clerk, U.S. District Court
Aug. 26, 1991
Central District of California
By: Deputy

FILED
Aug. 22, 1991
Clerk, U.S. District Court
Central District of California
By /s/ Deputy

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SUBAFILMS, LTD. and THE HEARST CORPORATION, a joint venture,	)	CASE NO. CV 88 6626 JGD (Tx)
Plaintiffs,	)	~~(PROPOSED)~~ JUDGMENT
V.	)	

UNREADABLE STAMP

UNITED ARTISTS CORPORATION, MGM/UA COMMUNICATIONS CO., MGM/UA HOME VIDEO, INC., INC., WARNER BROS., INC., AND WARNER HOME VIDEO, INC.,

Defendants.

AND RELATED COUNTERCLAIM

1. This case was tried on August 6, 7, 8, 9, 10 and 14, 1990 before The Honorable Lester E. Olson, Judge of the Superior Court of the State of California, retired, sitting as Special Master by appointment and order of The Honorable John G. Davies, United States District Judge for the Central District of California. Bertram Fields and Charles N. Shephard of Greenberg, Glusker, Fields, Claman & Machtinger represented the plaintiffs and counter-defendants. Louis Petrich and Patricia Duncan of Leopold, Petrich & Smith represented the defendants and counter-claimant.

2. On August 14, 1990, having heard and considered the evidence, as well as oral and written argument, the Special Master ordered the case submitted for decision.

3. On September 14, 1990, the Special Master issued his Report of Proceedings, Findings of Fact, Conclusions of Law and Recommendations for Judgment. Paragraph 102 of said report determined that plaintiffs

were entitled to an award of attorneys' fees and paragraph 102.1 directed plaintiffs to file an application with a detailed claimed for said attorneys' fees.

4. Pursuant to the directions contained in the Special Master's Report dated September 14, 1990, plaintiffs served and filed a proposed Judgment and an Application for Attorneys' Fees with supporting declarations.

5. Thereafter, and in a timely manner, defendants served and filed their written objections to said proposed Judgment and to the Application for Attorneys' Fees.

6. Thereafter, on December 12, 1990, a hearing was held to consider the proposed Judgment and an Application for Attorneys' Fees and defendants' objections thereto. At the conclusion of the hearing on December 12, 1990, counsel for plaintiffs was directed to file a revised proposed judgment. Counsel for plaintiffs was also authorized to file and serve a supplement to their previous application for attorneys' fees to permit the Special Master to take into account attorneys' fees incurred after September 30, 1990.

7. Thereafter on January 28, 1991, the Special Master issued his Supplementary Findings of Fact re Attorneys' Fees and Other Closing Matters. The Special Master's Report of Proceedings, Findings of Fact, Conclusions of Law and Recommendations for Judgment, and the Supplementary Findings of Fact re Attorneys' Fees and Other Closing Matters were filed with this Court on Aug 22 1991, 1991.

8. Having reviewed and considered the Special Master's Report of Proceedings, Findings of Fact, Conclu-

sions of Law and Recommendations for Judgment, and his Supplementary Findings of Fact re Attorneys' Fees and Other Closing Matters, it is ORDERED, ADJUDGED and DECREED as follows:

9. The Findings of Fact and Conclusions of Law of the Special Master and the Special Master's Supplementary Findings of Fact re Attorneys' Fees and Other Closing Matters, both of which are attached hereto and incorporated by reference herein, are adopted as the Findings of Fact and Conclusions of Law of this Court.

10. Plaintiffs are entitled to damages from defendants in the sum of $2,228,000. Defendants United Artists Corporation, MGM/UA Communications Co., and MGM/UA Home Video, Inc. are responsible for the entire amount of said damages. Defendants Warner Bros., Inc. and Warner Home Video are only responsible for that portion of said damages relating to foreign distribution of "Yellow Submarine". Accordingly, said $2,228,000 in damages are attributable to and payable by the following:

10.1 In respect of domestic distribution of "Yellow Submarine" in the home video field, plaintiffs are entitled to damages from defendants United Artists Corporation, MGM/UA Communications Co., and MGM/UA Home Video, Inc., jointly and severally, in the sum of $1,114,000.

10.2 In respect of foreign distribution of "Yellow Submarine" in the home video field, plaintiffs are entitled to damages from defendants United Artists Corporation, MGM/UA Communications Co., MGM/UA Home Video

Inc., Warner Bros. Inc., and Warner Home Video, Inc., jointly and severally, in the sum of $1,114,000.

10.3 The damages set forth herein are awarded in connection with plaintiffs First Claim for Relief as to defendants United Artists Corporation, MGM/UA Communications Co., and MGM/UA Home Video, Inc., in connection with plaintiffs' Second Claim for Relief as to defendants Warner Bros. Inc. and Warner Home Video and in connection with plaintiffs Fifth Claim For Relief as to defendants United Artists Corporation and MGM/UA Communications Co.

~~11. Plaintiffs are entitled to interest on their damages in the following sums:~~ /s/

~~11.1 In respect of domestic distribution, plaintiffs are entitled to interest on $1,114,000 from United Artists Corporation, MGM/UA Communications Co. and MGM/UA Home Video, jointly and severally, at the rate of 10% per annum commencing October 1, 1987 and continuing to the date of this Judgment. The total amount of that interest to the date of this Judgment is $_____.~~

~~11.2 In respect of foreign distribution, plaintiffs are entitled to interest on $1,114,000 from United Artists Corporation, MGM/UA Communications Co., MGM/UA Home Video, Warner Bros., Inc., and Warner Home Video, jointly and severally, at the rate of 10% per annum commencing October 1, 1987 and continuing to the date of this Judgment. The total amount of that interest to the date of this Judgment is $_____.~~

12. Pursuant to 17 U.S.C. §505, plaintiffs are entitled to an award of attorneys' fees in the sum of

$509,076.75 from each of the above-named defendants, jointly and severally. Said amount represents what the Special Master has found to be reasonable attorneys' fees incurred through December 31, 1990 and does not include additional fees which may be incurred in 1991 and in proceedings before the Court prior to the formal entry of the Judgment.

~~12.1 Pursuant to 17 U.S.C. §505, plaintiffs are entitled to an additional award of attorneys' fees in the sum of $_____ from each of the above-named defendants, jointly and severally. The court finds that said sum is the reasonable and necessary amount to compensate for attorneys' fees incurred after December 31, 1990.~~ /s/

12.2 Pursuant to 17 U.S.C. §505, plaintiffs are entitled to an award of to reimburse for reasonable and necessary litigation expenses in the sum of $27,848.73 from each of the above-named defendants, jointly and severally. Said amount represents what the Special Master has found to be reasonable and necessary litigation expenses incurred through December 31, 1990 and does not include additional litigation expenses which may be incurred in 1991 and in proceedings before the Court prior to the formal entry of the Judgment.

13. Defendants, United Artists Corporation, MGM/UA Communications Co., MGM/UA Home Video, Inc., Warner Bros., Inc., and Warner Home Video, Inc., and each of them, and the officers, agents, representatives, licensees and successors of each of them, are hereby permanently and forever enjoined from manufacturing, distributing, selling, renting, leasing, exploiting or otherwise turning to account or licensing or authorizing others to manufacture, distribute, sell, rent, lease, exploit

or otherwise turn to account copies of the motion picture "Yellow Submarine" for home video use, whether in the form of videocassettes, videodiscs, or otherwise. This permanent injunction is issued in connection with plaintiffs' Third and Ninth Claims for Relief.

14. In connection with plaintiffs' Fourth Claim for Relief, requesting declaratory relief, the Court declares as follows:

14.1 Plaintiffs are and at all relevant times were the copyright owners of the motion picture "Yellow Submarine". Under the written agreements of May 24, 1967, United Artists Corporation did not receive home video rights in or to said motion picture, which rights, together with other rights in said motion picture other than theatrical and television rights, were reserved by plaintiffs. Neither United Artists Corporation nor its licensees or successors, including but not limited to MGM/UA Communications Co., MGM/UA Home Video, Inc., Warner Bros., Inc., and Warner Home Video, Inc., have or ever had any home video rights in or in connection with said motion picture.

14.2 On August 4, 1978, ten years after the first general theatrical release of "Yellow Submarine", all rights of distribution in and to said motion picture that had been granted to United Artists Corporation under said agreements of May 24, 1967 became subject to the joint control of plaintiffs and United Artists Corporation, or its successors, and thereafter, with regard to such rights, neither plaintiffs nor United Artists Corporation, nor the successor of either of them, could or can distribute or exploit or make any agreement for the distribution or exploitation of those rights in said motion picture which

were granted under said agreements without the express prior written consent of the other. Such joint control and the requirement of obtaining express prior written consent do not apply with respect to distribution rights in the motion picture which were not granted to United Artists Corporation under said agreements.

14.3 Notwithstanding, but without limiting, subparagraph (b), above, United Artists Corporation and MGM/UA Communications Co. may continue to perform their obligations under television and/or theatrical license agreements executed prior to November 9, 1988, the date this action was filed.

14.4 The acts of United Artists Corporation and its successors in purporting to exploit home video rights in "Yellow Submarine", thus exceeding the rights that United Artists Corporation was granted under the agreements of May 24, 1967, and in exercising home video rights in said picture after August 4, 1978 without the prior written consent of plaintiffs and over their express objections, constituted a material breach of said agreements and an infringement of plaintiffs' copyright in the motion picture.

14.5 Defendants may retain and need not pay or account to plaintiffs for revenue received by defendants prior to September 14, 1990 from home video distribution of "Yellow Submarine".

15. Plaintiffs are entitled to no relief with respect to their Sixth, Seventh and Eighth Claims for Relief and MGM/UA Communications Co. is entitled to no relief with respect to its counterclaim.

16. The Court is not ruling on the issue of reformation, since the contracts at issue have been construed in a manner consistent with what plaintiffs alleged was the true intention of the parties, and therefore a ruling thereon is unnecessary.

17. Plaintiffs are the prevailing parties in this action and are entitled to their taxable costs. ~~as provided in Local Rule 16 in the amount of $_____~~.

/s/

Dated: AUG 22, 1991, 1991

/s/ John G. Davies
JOHN G. DAVIES
United States District Judge

DOCUMENT 5

NOT FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
FEB 17, 1993
CATHY A. CATTERSON, CLERK
U.S. COURT OF APPEALS

SUBAFILMS, LTD.; THE HEARST CORP.,	NOS. 91-56248 91-56379
Plaintiffs-counter-defendants - Appellees,	DC NO. CV-88-6626-JGD
v.	MEMORANDUM*
MGM-PATHE COMMUNICATIONS CO. fka MGM/UA Communications Co. and as United Artists Corporation; MGM/UA HOME VIDEO, INC.; WARNER HOME VIDEO, INC.; WARNER BROS. INC.,	

* This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as provided by 9th Cir. R. 36-3.

Defendants-counter-claimants - Appellants;	
SUBAFILMS, LTD.; THE HEARST CORP.,	NO. 91-56289
Plaintiffs- Appellants,	
v.	
MGM-PATHE COMMUNICATIONS CO. fka MGM/UA Communications Co. and as United Artists Corporation; MGM/UA HOME VIDEO, INC.; WARNER HOME VIDEO, INC.; WARNER BROS. INC.; UNITED ARTISTS CORPORATION	
Defendants-Appellees.	

Appeal from the United States District Court
For the Central District of California
John G. Davies, District Judge, Presiding

Argued and Submitted November 2, 1992
Pasadena, California

Before: D.W. NELSON, HALL, and RYMER, Circuit Judges.

Subafilms, Ltd. ("Subafilms") and the Hearst Corporation ("Hearst") sued United Artists Corporation ("UA"), MGM-Pathe Communications Co. ("MGM/UA"), MGM/UA Home Video, Inc., Warner Bros., Inc., and Warner Home Video, Inc. (collectively "the Distributors") for copyright infringement under 17 U.S.C. § 101 et seq., breach of contract, and related state law claims. Defendants counterclaimed for breach of contract, tortious interference with contract, and fraud. The district court found in plaintiffs' favor and awarded damages, attorney's fees, and injunctive relief. Defendants appeal the decision; plaintiffs cross-appeal the denial of prejudgment interest. We have jurisdiction pursuant to 28 U.S.C. § 1291. We affirm both the finding of copyright infringement and the relief ordered.

FACTUAL AND PROCEDURAL BACKGROUND

In 1966, Subafilms and Hearst (collectively "the Producer") entered into a joint venture to produce the animated Beatles film "Yellow Submarine" ("the Picture"). Hearst negotiated with UA to finance and distribute the Picture, and separate Distribution and Financing agreements ("the Agreements") were signed in May of 1967. This dispute concerns the grant of rights, the distribution term, and the post-distribution control provisions of the Agreements.

Pursuant to the Agreements, UA distributed the Picture in theaters beginning in 1968 and later on free television. In the early 1980's, UA entered into several agreements for the distribution of some of its films on

videocassette. Over the Producer's objections, in 1987 MGM/UA distributed the Picture domestically through MGM/UA Home Video and granted international distribution rights to Warner Home Video.

The Producer brought the present suit against MGM/UA and Warner in late 1988. The case was tried before retired California Superior Court Judge Lester E. Olson ("the Special Master"), who ruled in favor of the Producer. The district court adopted all of the Special Master's findings and recommendations except the award of prejudgment interest. These timely appeals followed.

STANDARD OF REVIEW

While the Special Master's findings of fact are reviewed for clear error, we do not defer to his conclusions of law. Swoboda v. Pala Mining, Inc., 844 F.2d 654, 656 (9th Cir. 1988). Mixed questions of law and fact are reviewed de novo. Id.

DISCUSSION

I Admission of Parol Evidence

The Special Master found that the Agreements were ambiguous and admitted parol evidence to explain their terms. Whether contract language is ambiguous is a question of law, subject to de novo review. See Petro-Ventures, Inc. v. Takessian, 967 F.2d 1337, 1339-40 (9th Cir. 1992). Although New York retains a strict version of the parol evidence rule, this limitation applies only where the contract is unambiguous. See 67 Wall Street Co. v. Franklin Nat'l Bank, 333 N.E.2d 184, 186 (N.Y. 1975). A provision "is ambiguous when it is reasonably susceptible to more than one reading." United States Fire

Ins. Co. v. General Reinsurance Corp., 949 F.2d 569, 572 (2d Cir. 1991) (applying New York law).

This dispute focuses on ¶ 10 of the Distribution Agreement[1] and ¶ 13 of the Financing Agreement.[2] The

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[1] Paragraph 10 of the Distribution Agreement gives UA:

> the sole, exclusive, and irrevocable right . . . to rent, lease, license, exhibit, distribute, reissue and otherwise deal in and with respect to the Picture and . . . to license others to do so throughout the world . . . for a period of ten (10) years from the first general release of the Picture
>
> . . . .
>
> The rights herein granted, without limiting the generality of the foregoing, shall include all so-called "theatrical" rights in the Picture . . . and shall also include the right to [do] . . and [to] authorize and license others to project, exhibit, reproduce, transmit and perform the Picture and prints and trailers thereof by television and by any other technological, mechanical or electronic means, method or device now known or hereafter conceived or created.

Pay, toll, and subscription television were defined as "theatrical" rather than "television" rights.

[2] Paragraph 13 of the Financing Agreement reiterates the ten-year distribution term and continues:

> [U]pon the expiration or sooner termination of the distribution rights . . . Producer and United shall have joint control over the further distribution, exploitation, exhibition, sale, or any other disposition whatsoever of the Picture . . . and no disposition whatsoever shall be made of such Picture or any part thereof by either Producer or United without the written consent of the other . . . .

After the expiration of the distribution term, either party could offer to buy or sell its rights in the Picture to the other party. The second-to-last provision of paragraph 13 provides:

(continued...)

Special Master admitted parol evidence because "[t]here are portions of the agreements . . . that are verbose, redundant, misleading and ambiguous." A de novo examination demonstrates that he was correct.

While each individual provision may appear to be unambiguous, any attempt to read the disputed provisions together raises serious questions. Do the distribution rights end after ten years, or do they continue until the Producer exercises the buy-or-sell option? Is there joint control after the distribution terms ends, or does UA have the "sole and exclusive distribution and exploitation rights"? Is there joint control over all rights in the Picture, or only over the original theatrical and television rights? Was UA granted rights to any new technology, or only to new developments in the theatrical and television areas? Since these questions are raised even by a cursory reading of the Agreements, we find that the Special Master did not err by admitting parol evidence.[3]

---

[2](...continued)

> Notwithstanding anything to the contrary containedherein or in the Distribution Agreement, it is hereby specifically understood and agreed that, until and unless Producer has exercised the aforesaid "buy-or-sell" provisions with respect to the Picture, United's sole and exclusive distribution and exploitation rights with respect to the Picture shall automatically continue and endure.

[3] The Distributors also contest the admission of documents written in the 1970's by other UA employees. However, they cite no relevant authority for the proposition that such "subsequent interpretations" are inadmissible. Indeed, the "practical interpretation of the contract by one party, evidenced by his words or acts, can be used against him on behalf of the other party, even though that other party

(continued...)

II. Disclosure of Privileged and Confidential Documents

After extensive briefing and oral argument, the Special Master granted plaintiffs' motion to compel production of documents which defendants claimed were protected by the attorney-client or work product privileges. Rulings regarding the application of attorney-client privilege are mixed questions of law and fact which are reviewed de novo. See Clarke v. American Commerce Nat'l Bank, 974 F.2d 127, 130 (9th Cir. 1992).

The parties disagree as to whether these claims are governed by New York or California law. Under Fed. R. Evid. 501, "[W]ith respect to an element of a claim or defense as to which State law supplies the rule of decision, the privilege . . . shall be determined in accordance with State law." But Rule 501 does not indicate which "State law" is to be applied. We need not determine which state law applied, however, because the result would be the same under the laws of both California and New York. See KL Group v. Case, Kay & Lynch, 829 F.2d 909, 918 (9th Cir. 1987).

The party who asserts the attorney-client privilege in New York bears the burden of establishing (1) that an attorney-client relationship existed, and (2) that the communication to the attorney was confidential and made in order to obtain legal services or advice. N.Y. Civ. Prac. L. & R. 4503(a) (Consol. 1992); Priest v. Hennessy,

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[3](...continued)
had no knowledge of those words or acts when they occurred and did not concur in them." Arthur L. Corbin, Corbin on Contracts § 558 (1960).

431 N.Y.S.2d 511, 514 (1980). New York also has an "absolute" protection for attorney work product which extends to work prepared for other litigation. N.Y. Civ. Prac. L. & R. 3101; Beasock v. Dioguardi Enter., Inc., 499 N.Y.S.2d 560 (App. Div. 1986). Again, the burden of satisfying each element of the privilege falls on the proponent. See John Blair Communications v. Reliance Capital Group, L.P., 582 N.Y.S.2d 720, 721 (App. Div. 1992).

Under California law, lawyer-client communications are presumed to be confidential. Cal. Evid. Code § 917 (West 1966); see also Cal. Evid. Code §§ 952, 954 (West 1992). "However, the party claiming privilege has the burden to show that the communication sought to be suppressed falls within the terms of the statute." Alpha Beta Co. v. Superior Court, 203 Cal. Rptr. 752, 755 (Ct. App. 1984); Liew v. Breen, 640 F.2d 1046, 1049 (9th Cir. 1981) (applying California law). While California's absolute protection for attorney work product extends to "[a]ny writing that reflects an attorney's impressions, conclusions, opinions, or legal research or theories," Cal. Civ. Proc. Code § 2018(c) (West 1992), the proponent still has the burden of proving the essential elements of the privilege. BP Alaska Exploration, Inc. v. Superior Court, 245 Cal. Rptr. 682, 689 (Ct. App. 1988).

Thus, under both New York and California law, the party asserting a privilege has the burden of proving the essential elements of that privilege. The Special Master found that defendants had "failed to meet their burden." On appeal, the Distributors have provided us with little more than bare assertions in support of their claim that the documents were privileged. They have not

provided us with copies of the disputed documents, specific descriptions of the documents, or even a full listing of the documents. The Distributors have thus made no showing which establishes that their burden has been met, and we cannot say that the Special Master's ruling was clear error.

III. Copyright Infringement

The district court found that the home video distribution infringed plaintiffs' copyright in the Picture under 17 U.S.C. § 101 et seq. The Distributors contend that they had home video distribution rights under the Agreements and, in the alternative, that their foreign distribution of these videocassettes is not actionable under the copyright laws of the United States. We reject both arguments.

A. Interpretation of the contract

The application of principles of contract interpretation to a particular contract is an issue of law which we review de novo. See Petro-Ventures, 967 F.2d at 1340. "When the inquiry extends beyond the words of the contract and focuses on related facts, however, the trial court's consideration of extrinsic evidence is entitled to great deference and its interpretation of the contract will not be reversed unless it is clearly erroneous." Id.

1. Grant of rights

The Special Master found, based on extrinsic evidence, that UA received only "theatrical" and "television" rights in the Picture. He noted the following: the drafter of the Agreements admitted that the basic deal was only for theatrical and television rights; the Producers deleted references to "nontheatrical rights" in the first

draft, although MGM/UA had apparently (possibly in bad faith) left some of those references in; the owner of the musical recording rights had given the Producer only the rights to "theatrical and television exhibition"; and there was evidence that MGM/UA employees believed they did not own non-theatrical rights and could not license them to third parties. These conclusions were not clearly erroneous.

After hearing conflicting testimony about industry practice in the 1960s, the Special Master concluded that home video rights were properly characterized as non-granted "non-theatrical" rights. The Distributors argue that this misstates industry practice in the 1960's. They assert that home video should be treated as a separate category of rights, neither "theatrical" or "non-theatrical" in nature, because it is a completely new medium. In support of this, they cite Cohen v. Paramount Pictures Corp., 845 F.2d 851, 853-54 (9th Cir. 1988). However, Cohen holds only that home video rights are not included in the category of television rights. Cohen contains no discussion of whether home video is or is not a "non-theatrical right."

In essence, the Distributors argue that the Special Master should have believed their qualified witnesses rather than adopting the "flimsy opinions" of plaintiffs' witnesses. The credibility of witnesses, however, is an area in which we give great deference to the trier of fact. In the absence of clear authority on the subject, the Special Master had both the opportunity to judge the witnesses' credibility and sufficient evidence to support his conclusions.

2. The "future technology" clause

The granted rights include "the right to project, exhibit, reproduce, transmit and perform the Picture and prints and trailers thereof by television and by any other technological, mechanical or electronic means, method or device now known or hereafter conceived or created." The Special Master held that this "future technology clause" did not cover the later-developed home video market. The Distributors claim that, as a matter of law, the clause encompassed home video rights.[4]

The only guidance in this circuit comes from the Cohen case, which held that, in the absence of a future technology clause, "television" rights did not encompass home video rights. But Cohen does not state that a future technology clause will confer home video rights where the original rights are limited to theatrical and television rights. Cohen simply does not address this fact situation.

Relying on the testimony of the one of Hearst's negotiating attorneys, the Special Master found that the parties had agreed to "split" theatrical and non-theatrical new technologies. Once the Special Master found that non-theatrical rights had not been granted to UA, this distinction was a logical one. In the absence of a clear legal rule, these conclusions were not clearly erroneous.

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[4] Two district courts have held that similar "future technology" clauses were broad enough to encompass home video rights. See Rooney v.Columbia Pictures Indus., Inc., 538 F. Supp. 211 (S.D.N.Y.) aff'd without opinion, 714 F.2d 117 (2d Cir. 1982), cert. denied, 460 U.S. 1084 (1983); Platinum Record Co. v. Lucasfilm, Ltd., 566 F. Supp. 226, 228 (D.N.J. 1983). However, these contracts did not include provisions which limited defendants to theatrical and television rights, as the Agreements do here.

3. Distribution term

The provisions regarding the distribution term are particularly confusing. Both Agreements give MGM/UA distribution rights for a period of ten years after the Picture's first general release. Paragraph 13 of the Financing Agreement gives the parties "joint control" over "any . . . disposition whatsoever" of the Picture upon expiration of the distribution term. After the distribution term, either party could invoke the "buy-or-sell" provision. However, "[n]otwithstanding anything to the contrary . . . United's sole and exclusive distribution and exploitation rights" would continue unless and until the Producer exercised that option. The Special Master concluded that the "notwithstanding" provision logically could not have been intended to extend MGM/UA's distribution term beyond the specified ten years and found that a strict reading of the clause "would totally vitiate the express ten-year term for which the parties had negotiated." He found instead that the clause was intended to continue only UA's status as a distributor.

The Special Master also noted that the ten-year distribution term had been inserted in place of UA's original "in perpetuity" language, and that the "notwithstanding" provision had not been the subject of extensive discussion and resolution (unlike other provisions). Since MGM/UA had drafted the Agreements, he construed the language against them, and found no parol evidence to support MGM/UA's interpretation. Finally, he noted that the Financing Agreement was ancillary to the Distribution Agreement, and that it would have been unusual for an ancillary agreement to expand drastically the rights contained in the main agreement.

The Distributors assert that the "notwithstanding" clause is the governing provision. The Producer had the ability, by exercising the "buy-or-sell" option, to limit MGM/UA's distribution term to ten years; otherwise the term would continue indefinitely. The parties would have "joint control" in the sixty days after the Producer decided to exercise the "buy-or-sell" option. Because the Producer has not exercised the option, the Distributors claim that they continue to have exclusive distribution rights.

Although the Distributors argue otherwise, their interpretation of the "notwithstanding" provision leaves the ten-year term and the joint control provision almost meaningless. Furthermore, these terms are not patently subordinate to the "buy-or-sell" provision. The Producer also points to documents and testimony in which MGM/UA employees indicated, both internally and to third parties, that the right to distribute the Picture expired after ten years. The Special Master's interpretation gives meaning to all of the relevant provisions and does not reach the level of clear error.

4. Joint control defense

The Distributors claim that they had a right to license home video rights under the joint control provision. Neither co-owners nor exclusive licensees may be sued for copyright infringement. See Oddo v. Ries, 743 F.2d 630, 632-33 (9th Cir. 1984); United States Naval Inst. v. Charter Communications, Inc., 936 F.2d 692, 695 (2d Cir. 1991). However, a licensee who exceeds the scope of the license may still be liable for infringement. See Oddo, 743 F.2d at 634.

The Distributors argue that the joint control provision unambiguously gives them joint control over all dispositions of the Picture. In addition to finding that they had only joint (rather than exclusive) control after the distribution term ended, however, the district court found that "joint control and the requirement of obtaining express prior written consent do not apply with respect to distribution rights in the motion picture which were not granted to" UA in the first place.

Given the limited grant of rights in the Distribution Agreement, it is unlikely that the Producer would have agreed to such a blanket expansion of rights after the distribution term. There are documents in the record which indicate that MGM/UA accepted this interpretation. Thus it was not clear error for the district court to find that the joint control provision did not enable MGM/UA to exploit home video rights in the Picture.

B. Liability for foreign distribution of videocassettes

The district court also held that Warner's international distribution constituted copyright infringement. The district court's conclusions of law are reviewed de novo, but its findings of fact are reviewed for clear error. Lewis Galoob Toys, Inc. v. Nintendo of America, Inc., 964 F.2d 965, 967 (9th Cir. 1992).

Section 106 of the Copyright Act gives the copyright owner the exclusive rights "to do and to authorize" the reproduction, preparation of derivative works, distribution, performance and display of the copyrighted work. 17 U.S.C. § 106(1)-(5). "For the most

part, acts of infringement which occur outside of the jurisdiction of the United States are not actionable" under the Act. 3 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 17.02 (1992). MGM/UA contends that its "authorization" of Warner does not constitute an infringement of § 106 rights because the Producer has no international rights in the Picture.

This case is controlled by Peter Starr Prod. Co. v. Twin Continental Films, Inc., 783 F.2d 1440 (9th Cir. 1986). While "infringing actions that take place entirely outside the United States are not actionable" in federal court, we held that an "act of infringement within the United States" was alleged where the illegal authorization of international exhibitions took place in the United States. Id. at 1442, 1443.[5] Here, the Distributors agree that the "authorization" to distribute the Picture internationally on home video occurred in the United States. Because this act of illegal authorization occurred within the United States, Peter Starr compels the conclusion that a valid claim of copyright infringement has been raised. The district court did not err in finding for plaintiffs.

V. Damages

A copyright infringer is liable for either "the copyright owner's actual damages and any additional profits of the infringer" or statutory damages. 17 U.S.C. § 504(a).

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[5] The Distributors attempt to limit Peter Starr to its holding that the federal court had subject matter jurisdiction over the claim. But in finding subject matter jurisdiction, we necessarily concluded that a valid infringement claim had been raised.

> The copyright owner is entitled to recover the actual damages suffered . . . as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.

17 U.S.C. § 504(b).

> Actual damages are defined as "the extent to which the market value of a copyrighted work has been injured or destroyed by an infringement." . . . The Ninth Circuit test for market value is "what a willing buyer would have been reasonably required to pay to a willing seller for plaintiffs' work."

United States v. King Features Entertainment, Inc., 843 F.2d 394, 400 (9th Cir. 1988) (citations omitted).[6] The district court's calculation of damages is reviewed for clear error. See Eales v. Environmental Lifestyles, Inc., 958 F.2d 876, 879 (9th Cir.), cert. denied sub nom. Shotey v. Eales, 113 S. Ct. 605 (1992).

The district court accepted the Special Master's calculations and awarded the Producer damages of $2,228,000 (split evenly between domestic and foreign distribution). The Special Master found that the home video rights had a reasonable market value of $3,000,000 at the time they were misappropriated and a minor residual value of $150,000 after the misappropriation. The

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[6] "The test is not what some buyer was willing to pay, but what a buyer would have been willing to pay for a use of a plaintiff's work similar to the defendant's use." Frank Music Corp. v. MetroGoldwyn-Mayer, Inc., 772 F.2d 505, 513 (9th Cir. 1985).

final figure was calculated by reducing the market value by the 20% to which UA was entitled by the Agreements.

The Special Master based his calculations upon the testimony of plaintiffs' expert Seth M. Willenson. The Distributors claim that the Special Master erred by disregarding the testimony of defense witness Waleed Ali, who made an actual offer on behalf of MPI, Inc. for home video rights for substantially less than Willenson's figures (i.e., a ten-year term with a guarantee of $700,000 and a 50% royalty). While it might have been preferable for the Special Master to explain why Ali's testimony was not persuasive, this failure does not constitute clear error. The damage award was supported by evidence in the record.[7]

VI. Attorney's Fees

The Copyright Act provides:

> In any civil action under this title, the court in its discretion may allow the recovery of full costs by or against any party . . . . Except as otherwise provided by this title, the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.

17 U.S.C § 505. An award of attorney's fees is reviewed for abuse of discretion. See McCulloch v. Albert E. Price, Inc., 823 F.2d 316, 322 (9th Cir. 1987). A sum of $

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[7] The Distributors ask that $28,000 of home video revenues which Subafilms has already accepted be deducted from the damages award; Appellees do not object.

536,925.48 was awarded to the Plaintiffs for "attorney's fees and litigation costs."

While a prevailing defendant must demonstrate frivolity or bad faith to recover attorney's fees under § 505, plaintiffs "may be awarded attorney's fees simply by virtue of prevailing in the action" so long as the amount is "reasonable." Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 886 F.2d 1545, 1556 (9th Cir. 1989) ("Frank Music II"), cert. denied, 494 U.S. 1017 (1990). But not every prevailing plaintiff is entitled to attorney's fees.

> Considerations which justify the denial of fees may include (1) the presence of a complex or novel issue of law that the defendant litigates vigorously and in good faith, (2) the defendant's status as innocent, rather than willful or knowing, infringer, (3) the plaintiff's prosecution of the case in bad faith, and (4) the defendant's good faith attempt to avoid infringement.

McCulloch, 823 F.2d at 323. This court will reverse and remand when the district court fails to explain the basis for the award. See id.

The issue of attorney's fees was the subject of extensive briefing and oral argument below. The Special Master calculated the total amount of fees which were incurred each month, and made a specific finding as to the "special" hourly rate of plaintiffs' lead counsel Bertram Fields ($400/hour), whose skill and efficiency he credited with expediting the trial. Thus there was sufficient explanation for the amount awarded, and the award was not an abuse of discretion.

The Distributors also object to the award of $27,848.73 in "litigation expenses."[8] Courts may only tax as costs those items defined or "encompassed" by 28 U.S.C. § 1920. See Alflex Corp. v. Underwriters Lab., Inc., 914 F.2d 175, 176 (9th Cir. 1990), cert. denied, 112 S. Ct. 61 (1991) (citation omitted). However, this circuit has also allowed reimbursement for out-of-pocket litigation expenses "distinct from the costs already awarded" under other statutes. See, e.g., United Steelworkers of America v. Phelps Dodge Corp., 896 P.2d 403, 407 (9th Cir. 1990).

The Special Master specifically delineated which expenses were "reasonable" and "necessary," awarded less than the amount claimed, and subtracted 25% of the total as normal overhead expenditures. On the basis of the analysis in United Steelworkers, we affirm this portion of the award. Appellees' request for attorney's fees on appeal under § 505 is denied.

VII. Prejudgment Interest

Finally, the Producer has cross-appealed from the district court's denial of prejudgment interest. The Special Master had awarded prejudgment interest at the rate of 10% per annum. An award of prejudgment interest is reviewed for abuse of discretion. See Mutuelles Unies v. Kroll & Linstrom, 957 F.2d 707, 714 (9th Cir. 1992).

The district court declined to award prejudgment interest under the current version of the Copyright Act

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[8] The Distributors also object to the award of $41,826.47 in taxable costs. Because the Distributors have not provided us with a complete description of the disputed costs, we cannot assess whether they were proper under 28 U.S.C. § 1920.

("1976 Act"). In Frank Music II, 886 F.2d at 1551, we held that prejudgment interest was available under the previous version of the Act ("1909 Act"). However, we left open the availability of interest under the 1976 Act. Id. at 1552 n.9.[9]

We need not pass upon the availability of prejudgment interest under the 1976 Act, however, because the district court indicated that it was not warranted by the facts of this case. Rather than stating that prejudgment interest was unavailable as a matter of law, the court stated that such interest was not appropriate. By way of explanation, the court noted that the "actual video cassette market value of the Picture would likely be realized over time," and thus that interest on the entire amount of damages would be a "windfall" for plaintiffs. This reasoning is persuasive, and the decision not to award interest was not an abuse of discretion.

AFFIRMED.

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[9] Other circuits are split on this issue. Compare Kleier Advertising, Inc. v. Premier Pontiac, Inc., 921 F.2d 1036, 1040-41 (10th Cir. 1990) (holding that prejudgment interest may indeed be awarded under the 1976 Act), with Robert R. Jones Assoc., Inc. v. Nino Homes, 858 F.2d 274, 282 (6th Cir. 1988) (vacating an award of prejudgment interest).

DOCUMENT 6

FOR PUBLICATION

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

SUBAFILMS, LTD.; THE HEARST CORP.,

Plaintiffs-counter-defendants-Appellees,

v.

MGM-PATHE COMMUNICATIONS CO., fka MGM/UA Communications Co. and as United Artists Corporation; MGM/UA HOME VIDEO, INC.; WARNER HOME VIDEO, INC.; WARNER BROS. INC.,

Defendants-counter-claimants-Appellants.

Nos. 91-56248
91-56379

D.C. No.
CV-88-6626-JGD

OPINION

SUBAFILMS, LTD.; THE HEARST CORP.,

Plaintiffs-Appellants,

v.

MGM-PATHE COMMUNICATIONS CO., fka MGM/UA Communications Co. and as United Artists Corporation; MGM/UA HOME VIDEO, INC.; WARNER HOME VIDEO, INC.; WARNER BROS. INC.; UNITED ARTISTS CORPORATION,

Defendants-Appellees.

No. 91-56289

Appeal from the United States District Court
for the Central District of California
John G. Davies, District Judge, Presiding

Argued and Submitted
February 24, 1994—San Francisco, California

Filed May 13, 1994

Before: Wallace, Chief Judge, Browning, Tang, Poole, D.W. Nelson, Beezer, Hall, Brunetti, Kozinski, Thompson, and Leavy, Circuit Judges.

Opinion by Judge D.W. Nelson

SUMMARY

Intellectual Property/Copyrights/International Law

The court of appeals, on petition for rehearing en banc, vacated in part a decision of a panel of the court of appeals, and remanded. The court held that the mere authorization of acts of copyright infringement that are not cognizable under the United States copyright laws because they occur entirely outside of the United States does not state a claim for infringement under the Copyright Act.

The musical group The Beatles, through appellee Subafilms, Ltd., entered into a joint venture with appellee the Hearst Corp. to produce a motion picture entitled "Yellow Submarine." Hearst negotiated an agreement with United Artists Corp. (UA) to distribute and finance the film. Separate

distribution and financing agreements were entered into, pursuant to which UA distributed the picture in theaters and later on television. UA's successor company, appellant MGM/UA Communications Co. authorized its subsidiary to distribute the picture for the domestic home video market. Appellant Warner Bros., Inc., through its subsidiary, entered into agreements with third parties for distribution of the picture on videocassette around the world.

Subafilms and Hearst sued MGM/UA, Warner, and their respective subsidiaries (collectively, the Distributors), contending that the videocassette distribution of the picture, both foreign and domestic, constituted copyright infringement. A special master found for Subafilms and Hearst. The district court adopted the special master's conclusion, except for an award of prejudgment interest. A panel of the court of appeals affirmed on the ground that both the domestic and foreign distribution of the picture constituted infringement under the Copyright Act. The court of appeals granted the Distributors' petition for rehearing en banc.

[1] There can be no liability under the United States copyright laws for authorizing an act that itself could not constitute infringement of rights secured by those laws. Wholly extraterritorial acts of infringement are not cognizable under the Copyright Act. Thus, allegations of an authorization within the United States of infringing acts that take place entirely abroad do not state a claim for infringement under the Act.

[2] In *Peter Starr Prod. Co. v. Twin Continental Films, Inc.*, the Ninth Circuit held that the authorization within the United States of entirely extraterritorial acts stated a cause of action under the "plain language" of the Copyright Act. [3] The central premise in *Peter Starr* was that a party could be held liable as an "infringer" under the Act merely for authorizing a third party to engage in acts that, had they been com-

mitted within the United States, would have violated the exclusive rights granted to a copyright holder. [4] Since *Peter Starr*, however, the Ninth Circuit, in *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, has recognized that when a party authorizes an activity not proscribed by one of the five clauses in § 106 of the Act, the authorizing party cannot be held liable as an infringer. [5] The apparent premise of *Lewis Galoob* was that the addition of the words "to authorize" in the Act was not meant to create a new form of liability for "authorization" that was divorced completely from the legal consequences of authorized conduct, but was intended to invoke the preexisting doctrine of contributory infringement.

[6] Contributory infringement, even when triggered solely by an "authorization," is a form of third party liability that requires the authorized acts to constitute infringing ones. The *Peter Starr* court erred in not applying this principle to the authorization of acts that cannot themselves be infringing because they take place entirely abroad.

[7] Subafilms and Hearst argued that the conduct authorized in this case was precisely that prohibited by § 106, and was only uncognizable because it occurred outside the United States. [8] However, it was not possible to draw a distinction between an act which did not violate a copyright because it was not the type of conduct proscribed by § 106 and one that did not violate § 106 because it occurred overseas. In both cases, the authorized conduct could not violate the exclusive rights guaranteed by § 106. In both cases, therefore, there could be no liability for "authorizing" such conduct.

[9] Thus, accepting that wholly extraterritorial acts of infringement could not support a claim under the Act, the *Peter Starr* court and the Ninth Circuit panel erred in concluding that the mere authorization of such acts supported a claim for infringement under the Act.

[10] Subafilms and Hearst also argued that in this case the court should have found that the United States copyright laws extended to extraterritorial acts of infringement because such acts resulted in "adverse effects" within the United States. [11] However, consistent jurisprudence on the extraterritorial reach of the copyright laws could not be overturned without further guidance from Congress. [12] The application of American copyright law to acts of infringement that occur entirely overseas could disrupt Congress' efforts to secure a more stable international intellectual property regime. [13] Thus, it was reaffirmed that the United States copyright laws do not reach acts of infringement that take place entirely abroad.

COUNSEL

Louis P. Petrich, Leopold, Petrich & Smith, Los Angeles, California, for defendants-counter-claimants-appellants United Artists Corp., MGM/UA Communications Co., MGM/UA Home Video, Inc., Warner Bros., Inc., and Warner Home Video, Inc.

Bertram Fields, Greenberg, Glusker, Fields, Claman & Machtinger, Los Angeles, California, for plaintiffs-counter-defendants-appellees Subafilms, Ltd. and The Hearst Corporation.

OPINION

D.W. NELSON, Circuit Judge:

In this case, we consider the "vexing question"[1] of whether a claim for infringement can be brought under the Copyright Act, 17 U.S.C. § 101 *et seq.* (1988), when the assertedly infringing conduct consists solely of the authorization within the territorial boundaries of the United States of acts that occur entirely abroad. We hold that such allegations do not state a claim for relief under the copyright laws of the United States.

Factual and Procedural Background

In 1966, the musical group The Beatles, through Subafilms, Ltd., entered into a joint venture with the Hearst Corporation to produce the animated motion picture entitled "Yellow Submarine" (the "Picture"). Over the next year, Hearst, acting on behalf of the joint venture (the "Producer"), negotiated an agreement with United Artists Corporation ("UA") to distribute and finance the film. Separate distribution and financing agreements were entered into in May, 1967. Pursuant to these agreements, UA distributed the Picture in theaters beginning in 1968 and later on television.

In the early 1980s, with the advent of the home video market, UA entered into several licensing agreements to distribute a number of its films on videocassette. Although one company expressed interest in the Picture, UA refused to license "Yellow Submarine" because of uncertainty over whether

[1] 1 Paul Goldstein, Copyright: Principles, Law and Practice § 6.1, at 705 n.4 (1989).

home video rights had been granted by the 1967 agreements. Subsequently, in 1987, UA's successor company, MGM/UA Communications Co. ("MGM/UA"), over the Producer's objections, authorized its subsidiary MGM/UA Home Video, Inc. to distribute the Picture for the domestic home video market, and, pursuant to an earlier licensing agreement, notified Warner Bros., Inc. ("Warner") that the Picture had been cleared for international videocassette distribution. Warner, through its wholly owned subsidiary, Warner Home Video, Inc., in turn entered into agreements with third parties for distribution of the Picture on videocassette around the world.

In 1988, Subafilms and Hearst ("Appellees") brought suit against MGM/UA, Warner, and their respective subsidiaries (collectively the "Distributors" or "Appellants"), contending that the videocassette distribution of the Picture, both foreign and domestic, constituted copyright infringement and a breach of the 1967 agreements. The case was tried before a retired California Superior Court Judge acting as a special master. The special master found for Appellees on both claims, and against the Distributors on their counterclaim for fraud and reformation. Except for the award of prejudgment interest, which it reversed, the district court adopted all of the special master's factual findings and legal conclusions. Appellees were awarded $2,228,000.00 in compensatory damages, split evenly between the foreign and domestic home video distributions. In addition, Appellees received attorneys' fees and a permanent injunction that prohibited the Distributors from engaging in, or authorizing, any home video use of the Picture.

A panel of this circuit, in an unpublished disposition, affirmed the district court's judgment on the ground that both the domestic and foreign distribution of the Picture consti-

tuted infringement under the Copyright Act. *See Subafilms, Ltd. v. MGM-Pathe Communications Co.*, Nos. 91-56248, 91-56379, 91-56289 (9th Cir. Feb. 17, 1993).[2] With respect to the foreign distribution of the Picture, the panel concluded that it was bound by this court's prior decision in *Peter Starr Prod. Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440 (9th Cir. 1986), which it held to stand for the proposition that, although " 'infringing actions that take place entirely outside the United States are not actionable' [under the Copyright Act, an] 'act of infringement within the United States' [properly is] alleged where the illegal *authorization* of international exhibitions *t[akes] place in the United States*," *Subafilms*, slip op. at 4917-18 (quoting *Peter Starr*, 783 F.2d at 1442, 1443 (emphasis in original) (alterations added)). Because the Distributors had admitted that the initial authorization to distribute the Picture internationally occurred within the United States, the panel affirmed the district court's holding with respect to liability for extraterritorial home video distribution of the Picture.[3]

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[2]Because the panel found that the district court's judgment could be sustained solely on the basis of a violation of the Copyright Act, the panel declined to reach the alternative breach of contract theory relied upon by the district court and special master.

[3]At oral argument before this court Appellants' counsel conceded that the relevant authorization occurred within the United States. Counsel for Appellees, accepting this concession, additionally insisted that the authorization necessarily included the making of a copy of the negative of the Picture within the United States. Appellants' counsel responded that this contention was made before neither the special master nor the panel, and was not supported by the record. For the purposes of this decision, we assume, as apparently the panel did, that each of the defendants made a relevant "authorization" within the United States, and that the acts of authorization consisted solely of entering into licensing agreements.

[1] We granted Appellants' petition for rehearing en banc to consider whether the panel's interpretation of *Peter Starr* conflicted with our subsequent decision in *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965 (9th Cir. 1992), *cert. denied*, 113 S. Ct. 1582 (1993), which held that there could be no liability for authorizing a party to engage in an infringing act when the authorized "party's use of the work would not violate the Copyright Act," *id.* at 970; *see also Columbia Pictures Indus., Inc. v. Professional Real Estate Investors, Inc.*, 866 F.2d 278, 279-81 (9th Cir. 1989) (holding that a hotel was not liable under the Copyright Act for making available videodisc players for in-room viewing), *rev'd on other grounds*, 113 S. Ct. 1920 (1993). Because we conclude that there can be no liability under the United States copyright laws for authorizing an act that *itself* could not constitute infringement of rights secured by those laws, and that wholly extraterritorial acts of infringement are not cognizable under the Copyright Act, we overrule *Peter Starr* insofar as it held that allegations of an authorization within the United States of infringing acts that take place entirely abroad state a claim for infringement under the Act. Accordingly, we vacate the panel's decision in part and return the case to the panel for further proceedings.

Discussion

I. The Mere Authorization of Extraterritorial Acts of Infringement does not State a Claim under the Copyright Act

[2] As the panel in this case correctly concluded, *Peter Starr* held that the authorization within the United States of entirely extraterritorial acts stated a cause of action under the "plain language" of the Copyright Act. *Peter Starr*, 783 F.2d

at 1442-43. Observing that the Copyright Act grants a copyright owner "the *exclusive rights* to do and *to authorize*" any of the activities listed in 17 U.S.C. § 106(1)-(5), *id.* at 1442 (emphasis in original),[4] and that a violation of the "authorization" right constitutes infringement under section 501 of the Act, the *Peter Starr* court reasoned that allegations of an authorization within the United States of extraterritorial conduct that corresponded to the activities listed in section 106 "allege[d] an act of infringement within the United States," *id.* at 1442-43. Accordingly, the court determined that the district court erred "in concluding that 'Plaintiff allege[d] only infringing acts which took place outside of the United

[4]Section 106 of the Copyright Act provides:

> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
>
> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works . . . to display the copyrighted work publicly.

17 U.S.C.A. § 106 (West Supp. 1992).

States,' " and reversed the district court's dismissal for lack of subject matter jurisdiction. *Id.* at 1443.[5]

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[5]Appellants, relying *inter alia* on *Bell v. Hood*, 327 U.S. 678 (1946), insist that *Peter Starr* should be limited to its holding relating to subject matter jurisdiction and that any intimation by the court that the plaintiff stated a valid cause of action should be disregarded as dicta. *See also Danjaq, S.A. v. MGM/UA Communications, Co.*, 773 F. Supp. 194, 203 (C.D. Cal. 1991) (so interpreting *Peter Starr*), *aff'd on other grounds*, 979 F.2d 772 (9th Cir. 1992). We do not read *Peter Starr* in this manner. Appellants undoubtedly are correct that the existence of subject matter jurisdiction under 28 U.S.C. § 1338(a) is distinct as a general matter from the question of whether a valid cause of action is stated. *See, e.g., Effects Assocs., Inc. v. Cohen*, 817 F.2d 72, 73 (9th Cir. 1987) (quoting *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964) (Friendly, J.), *cert. denied*, 381 U.S. 915 (1965)), *cert. denied*, 498 U.S. 1103 (1991). However, the *Peter Starr* court treated the jurisdictional inquiry as *dependent* on whether "[t]he complaint . . . allege[d] an act of infringement within the United States," *Peter Starr*, 783 F.2d at 1443, and expressly concluded that allegations of an invalid "authorization" "state[ ] a cause of action [for infringement] under the plain language" of the Copyright Act, *id.* at 1442-43. Even if the *Peter Starr* court erred in framing the subject matter jurisdiction inquiry as coextensive with the question of whether the allegations in the complaint stated a good cause of action, a question we do not decide, *cf. Hartford Fire Ins. Co. v. California*, 113 S. Ct. 2891, 2917-18 (1993) (Scalia, J., dissenting in relevant part) (asserting that the question of the extraterritorial reach of the Sherman Act "has nothing to do with the jurisdiction of the courts" but is a question of "legislative jurisdiction"), it undoubtedly held that a claim had been stated. Indeed, most courts have read *Peter Starr* in precisely this manner. *See, e.g., Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67, 72-73 (2d Cir. 1988) (concluding that subject matter jurisdiction existed because the plaintiffs "stated a claim fully cognizable under the copyright laws" by alleging a predicate act of infringement within the United States); *ITSI T.V. Prods., Inc. v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 863-64 (E.D. Cal. 1992) (explaining that the *Peter Starr* court "was required to address both jurisdiction and [the sufficiency of the claim] in the course of disposition" because "the jurisdictional question and the merits [were] intertwined"), *rev'd on other grounds*, 3 F.3d 1289 (9th Cir. 1993).

[3] The *Peter Starr* court accepted, as does this court,[6] that the acts *authorized* from within the United States themselves could not have constituted infringement under the Copyright Act because "[i]n general, United States copyright laws do not have extraterritorial effect," and therefore, "infringing actions that take place entirely outside the United States are not actionable." *Peter Starr*, 783 F.2d at 1442 (citing *Robert Stigwood Group, Ltd. v. O'Reilly*, 530 F.2d 1096, 1101 (2d Cir.), *cert. denied*, 429 U.S. 848 (1976)). The central premise of the *Peter Starr* court, then, was that a party could be held liable as an "infringer" under section 501 of the Act merely for authorizing a third party to engage in acts that, had they been committed *within* the United States, would have violated the exclusive rights granted to a copyright holder by section 106.

[4] Since *Peter Starr*, however, we have recognized that, when a party authorizes an activity *not* proscribed by one of the five section 106 clauses, the authorizing party cannot be held liable as an infringer. In *Lewis Galoob*, we rejected the argument that "a party can unlawfully authorize another party to use a copyrighted work even if that party's use of the work would not violate the Copyright Act," *Lewis Galoob*, 964 F.2d at 970, and approved of Professor Nimmer's statement that " 'to the extent that an activity does not violate one of th[e] five enumerated rights [found in 17 U.S.C. § 106], authorizing such activity does not constitute copyright infringement,' " *id.* (quoting 3 David Nimmer & Melville B. Nimmer, Nimmer on Copyright § 12.04[A][3][a], at 12-80

[6]We reaffirm below that the Copyright Act does not extend to acts of infringement that take place entirely abroad. *See infra* Part II.

n.82 (1991)). Similarly, in *Columbia Pictures*, we held that no liability attached under the Copyright Act for providing videodisc players to hotel guests when the use of that equipment did not constitute a "public" performance within the meaning of section 106 of the Act, *see Columbia Pictures*, 866 F.2d at 279-81.

[5] The apparent premise of *Lewis Galoob* was that the addition of the words "to authorize" in the Copyright Act was not meant to create a new form of liability for "authorization" that was divorced completely from the legal consequences of authorized conduct, but was intended to invoke the preexisting doctrine of contributory infringement. *See Lewis Galoob*, 964 F.2d at 970 ("Although infringement by authorization is a form of direct infringement [under the Act], this does not change the proper focus of our inquiry; a party cannot authorize another party to infringe a copyright unless the authorized conduct would itself be unlawful."). We agree.

Contributory infringement under the 1909 Act developed as a form of third party liability. Accordingly, there could be no liability for contributory infringement unless the authorized or otherwise encouraged activity itself could amount to infringement. *See, e.g., Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) ("[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the *infringing conduct of another*, may be held liable as a 'contributory' infringer." (emphasis added)); *cf. Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526 (1972) ("But it is established that there can be no contributory infringement without

the fact or intention of a direct infringement. 'In a word, if there is no [direct] infringement of a patent there can be no contributory infringer.' " (quoting *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 677 (1944) (Frankfurter, J., dissenting on other grounds) (alteration added by *Deepsouth* Court))).[7] *See generally* 1 Paul Goldstein, Copyright: Principles, Law and Practice § 6.1, at 705 (1989) [hereinafter Goldstein] ("It is definitional that, for a defendant to be held contributorily ... liable, a direct infringement must have occurred."); 3 David Nimmer & Melville B. Nimmer, Nimmer on Copyright § 12.04[A][2][b], at 12-81 (1993) [hereinafter Nimmer] ("There can, by definition, be no contributory liability if that conduct which is aided by the putative contributory infringer is not itself infringing."). Indeed, the Supreme Court in *Sony Corp. of Am. v. Universal City Studies, Inc.*, 464 U.S. 417 (1984), although expressly noting that it addressed an extraordinary claim of vicarious or contributory infringement under the 1976 Act for which there was "no precedent in the law of copyright," *id.* at 439, inquired whether

[7]In *Deepsouth*, the Court held that the shipment overseas of materials that, when assembled in combination, violated a United States patent, did not result in liability for contributory infringement. *See Deepsouth*, 406 U.S. at 526-29. Although Congress subsequently reversed this decision by statute, *see* Patent Law Amendments of 1984, Pub. L. No. 98-622, § 101, 98 Stat. 3383, 3383 (1984) (codified as amended at 35 U.S.C.A. § 271(f) (West Supp. 1992)), the case strongly supports our view, discussed below, that under the Copyright Act, for which no similar legislation has been passed, liability for contributory infringement cannot be based on an infringement that takes place overseas. *Cf. Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 & n.19 (1984) (drawing upon the patent laws in analyzing a contributory infringement claim brought under the Copyright Act because of "the historic kinship between patent law and copyright law").

the machines sold by Sony ultimately were capable of a "substantial *noninfringing* use[ ]," *id.* at 442 (emphasis added); *see also Cable/Home Communication Corp. v. Network Productions, Inc.*, 902 F.2d 829, 845 (11th Cir. 1990) ("Contributory infringement necessarily must follow a finding of direct or primary infringement.").

As the Supreme Court noted in *Sony*, and this circuit acknowledged in *Peter Starr*, under the 1909 Act courts differed over the *degree* of involvement required to render a party liable as a contributory infringer. *See Sony*, 464 U.S. at 437-38 & n.18; *Peter Starr*, 783 F.2d at 1443. Viewed with this background in mind, the addition of the words "to authorize" in the 1976 Act appears best understood as merely clarifying that the Act contemplates liability for contributory infringement, and that the bare act of "authorization" can suffice. This view is supported by the legislative history of the Act:

> The exclusive rights accorded to a copyright owner under section 106 are "to do and to authorize" any of the activities specified in the five numbered clauses. *Use of the phrase "to authorize" is intended to avoid any questions as to the liability of contributory infringers.* For example, a person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.

H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674 (emphasis added).

Consequently, we believe that " 'to authorize' [wa]s simply a convenient peg on which Congress chose to hang the antecedent jurisprudence of third party liability." 3 Nimmer, *supra*, § 12.04[A][3][a], at 12-84 n.81.

[6] Although the *Peter Starr* court recognized that the addition of the authorization right in the 1976 Act "was intended to remove the confusion surrounding contributory ... infringement," *Peter Starr*, 783 F.2d at 1443, it did not consider the applicability of an essential attribute of the doctrine identified above: that contributory infringement, even when triggered solely by an "authorization," is a form of third party liability that requires the authorized acts to constitute infringing ones. We believe that the *Peter Starr* court erred in not applying this principle to the authorization of acts that cannot themselves be infringing because they take place entirely abroad. As Professor Nimmer has observed:

> Accepting the proposition that a direct infringement is a prerequisite to third party liability, the further question arises whether the direct infringement on which liability is premised must take place within the United States. Given the undisputed axiom that United States copyright law has no extraterritorial application, it would seem to follow necessarily that a primary activity outside the boundaries of the United States, not constituting an infringement cognizable under the Copyright Act, cannot serve as the basis for holding liable under the Copyright Act one who is merely related to that activity within the United States.

3 Nimmer, *supra*, § 12.04[A][3][b], at 12-86 (footnotes omitted).

[7] Appellees resist the force of this logic, and argue that liability in this case is appropriate because, unlike in *Lewis Galoob* and *Columbia Pictures*, in which the alleged primary infringement consisted of acts that were entirely outside the purview of 17 U.S.C. § 106(1)-(5) (and presumably lawful), the conduct authorized in this case was precisely that prohibited by section 106, and is only uncognizable because it occurred outside the United States. Moreover, they contend that the conduct authorized in this case would have been prohibited under the copyright laws of virtually every nation. *See also* 1 Goldstein, *supra*, § 6.1, at 706 n.4 (suggesting that "*Peter Starr*'s interpretation of section 106's authorization right would appear to be at least literally correct since the statute nowhere requires that the direct infringement occur within the United States."); *ITSI T.V. Prods., Inc. v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 863 (E.D. Cal. 1992) (asserting that "because 'authorization' is itself actionable as a 'direct' act of copyright infringement, the fact that the act 'authorized' occurs abroad is irrelevant"), *rev'd on other grounds*, 3 F.3d 1289 (9th Cir. 1993).

[8] Even assuming *arguendo* that the acts authorized in this case would have been illegal abroad, we do not believe the distinction offered by Appellees is a relevant one. Because the copyright laws do not apply extraterritorially, each of the rights conferred under the five section 106 categories must be read as extending "no farther than the [United States'] borders." 2 Goldstein, *supra*, § 16.0, at 675. *See, e.g., Robert Stigwood*, 530 F.2d at 1101 (holding that no damages could be obtained under the Copyright Act for public performances in Canada when preliminary steps were taken within the United States and stating that "[t]he Canadian performances, while they may have been torts in Canada, were not torts here"); *see also Filmvideo Releasing Corp. v. Hastings*, 668 F.2d 91, 93 (2d Cir. 1981) (reversing an order of the district

court that required the defendant to surrender prints of a film because the prints could be used to further conduct abroad that was not proscribed by United States copyright laws). In light of our above conclusion that the "authorization" right refers to the doctrine of contributory infringement, which requires that the authorized act *itself* could violate one of the exclusive rights listed in section 106(1)-(5), we believe that "[i]t is simply not possible to draw a principled distinction" between an act that does not violate a copyright because it is not the type of conduct proscribed by section 106, and one that does not violate section 106 because the illicit act occurs overseas. *Danjaq, S.A. v. MGM/UA Communications, Co.*, 773 F. Supp. 194, 203 (C.D. Cal. 1991), *aff'd on other grounds*, 979 F.2d 772 (9th Cir. 1992). In both cases, the authorized conduct could not violate the exclusive rights guaranteed by section 106. In both cases, therefore, there can be no liability for "authorizing" such conduct. *See also* 3 Nimmer, *supra*, § 12.04[A][3][b], at 12-87 to 12-88.

To hold otherwise would produce the untenable anomaly, inconsistent with the general principles of third party liability, that a party could be held liable as an infringer for violating the "authorization" right when the party that it authorized could not be considered an infringer under the Copyright Act. Put otherwise, we do not think Congress intended to hold a party liable for *merely* "authorizing" conduct that, had the *authorizing* party chosen to engage in itself, would have resulted in no liability under the Act. *Cf. Robert Stigwood*, 530 F.2d at 1101.[8]

Appellees rely heavily on the Second Circuit's doctrine that extraterritorial application of the copyright laws is permissible "when the type of infringement permits further reproduction abroad." *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988). Whatever the merits of the Second Cir-

cuit's rule, and we express no opinion on its validity in this circuit, it is premised on the theory that the copyright holder may recover damages that stem from a direct infringement of its exclusive rights that occurs *within* the United States. *See Robert Stigwood,* 530 F.2d at 1101; *Sheldon v. Metro-Goldwyn Pictures Corp.,* 106 F.2d 45, 52 (2d Cir. 1939) (L. Hand, J.) ("The negatives were 'records' from which the work could be 'reproduced', and it was a tort to make them in this country. The plaintiffs acquired an equitable interest in them as soon as they were made, which attached to any profits from their exploitation . . . ."), *aff'd,* 309 U.S. 390 (1940); *see also Ahbez v. Edwin H. Morris & Co., Inc.,* 548 F. Supp. 664, 667 (S.D.N.Y. 1982); *Famous Music Corp. v. Seeco Records, Inc.,* 201 F. Supp. 560, 568-69 (S.D.N.Y. 1961).[9] In these cases, liability is not based on contributory infringement, but on the theory that the infringing use would have been actionable *even if* the subsequent foreign distribution that stemmed from that use never took place. *See, e.g., Famous Music,* 201 F. Supp. at 569 ("[T]hat a copyright has no extra-territorial effect[ ] does not solve th[e] problem of [whether liability should attach for preparing within the United States tapes that were part of a] manufacture [completed abroad] since plain-

[8]We express no opinion on whether liability might attach when a party authorizes an act that *could* constitute copyright infringement, but the "attempted" infringement fails.

[9]Professor Nimmer formulates the doctrine in the following terms:

> [I]f and to the extent a part of an 'act' of infringement occurs within the United States, then, although such act is completed in a foreign jurisdiction, those parties who contributed to the act within the United States may be rendered liable under American copyright law.

3 Nimmer, *supra,* § 17.02, at 17-19 (footnotes omitted).

tiffs seek to hold defendant for what it did *here* rather than what it did abroad." (emphasis in original)). These cases, therefore, simply are inapplicable to a theory of liability based merely on the authorization of noninfringing acts.

[9] Accordingly, accepting that wholly extraterritorial acts of infringement cannot support a claim under the Copyright Act, we believe that the *Peter Starr* court, and thus the panel in this case, erred in concluding that the mere authorization of such acts supports a claim for infringement under the Act.

II. The Extraterritoriality of the Copyright Act

[10] Appellees additionally contend that, if liability for "authorizing" acts of infringement depends on finding that the authorized acts themselves are cognizable under the Copyright Act, this court should find that the United States copyright laws *do extend* to extraterritorial acts of infringement when such acts "result in adverse effects within the United States." Appellees buttress this argument with the contention that failure to apply the copyright laws extraterritorially in this case will have a disastrous effect on the American film industry, and that other remedies, such as suits in foreign jurisdictions or the application of foreign copyright laws by American courts, are not realistic alternatives.

[11] We are not persuaded by Appellees' parade of horribles.[10] More fundamentally, however, we are unwilling to overturn over eighty years of consistent jurisprudence on the extraterritorial reach of the copyright laws without further guidance from Congress.

The Supreme Court recently reminded us that "[i]t is a long-standing principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.' " *EEOC v. Arabian American Oil Co.* (*Aramco*), 111 S. Ct. 1227, 1230 (1991) (quoting *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949)). Because courts must "assume that

[10] As Appellants note, breach of contract remedies (such as those pursued in this case) remain available. Moreover, at least one court has recognized that actions under the copyright laws of other nations may be brought in United States courts. *See London Film Prods. Ltd. v. Intercontinental Communications, Inc.*, 580 F. Supp. 47, 48-50 (S.D.N.Y. 1984). *See generally* 2 Goldstein, *supra*, § 16.3, at 683 ("Subject to jurisdictional requirements, a copyright owner may sue an infringer in United States courts even though the only alleged infringement occurred in another country."). *But see ITSI*, 785 F. Supp. at 866 (discerning, despite *London Film*, "no clear authority for exercising such jurisdiction" (citing David R. Toraya, Note, *Federal Jurisdiction Over Foreign Copyright Actions — An Unsolicited Reply to Professor Nimmer*, 70 Cornell L. Rev. 1165 (1985)), and stating that "American courts should be reluctant to enter the bramble bush of ascertaining and applying foreign law without an urgent reason to do so"). Finally, although we note that the difficulty of protecting American films abroad is a significant international trade problem, *see generally* Jan D'Alessandro, Note, *A Trade Based Response to Intellectual Property Piracy: A Comprehensive Plan to Aid the Motion Picture Industry*, 76 Geo. L.J. 417 (1987), the United States Congress, in acceding to the Berne Convention, has expressed the view that it is through increasing the protection afforded by *foreign* copyright laws that domestic industries that depend on copyright can best secure adequate protection. *See* H.R. Rep. No. 609, 100th Cong., 2d Sess. 18-20; S. Rep. 352, 100th Cong., 2d Sess. 2-5, *reprinted in* 1988 U.S.C.C.A.N., 3706, 3707-10.

Congress legislates against the backdrop of the presumption against extraterritoriality," unless "there is 'the affirmative intention of the Congress clearly expressed' " congressional enactments must be presumed to be " 'primarily concerned with domestic conditions.' " *Id.* at 1230 (quoting *Foley Bros.*, 336 U.S. at 285 and *Benz v. Compania Naviera Hidalgo, S.A.*, 353 U.S. 138, 147 (1957)).

The "undisputed axiom," 3 Nimmer, *supra*, § 12.04[A][3][b], at 12-86, that the United States' copyright laws have no application to extraterritorial infringement predates the 1909 Act, *see, e.g., United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260, 264-66 (1908) (Holmes, J.), and, as discussed above, the principle of territoriality consistently has been reaffirmed, *see, e.g., Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 662 (2d Cir. 1955) (citing *American Code Co. v. Bensigner*, 282 F. 829, 833 (2d Cir. 1922) ("The copyright laws of one country have no extraterritorial operation, unless otherwise provided." (citing *Ferris v. Frohman*, 223 U.S. 424 (1912)))); *sources cited supra* pp. 4917-20. There is no clear expression of congressional intent in either the 1976 Act or other relevant enactments to alter the preexisting extraterritoriality doctrine. Indeed, the *Peter Starr* court itself recognized the continuing application of the principle that "infringing actions that take place entirely outside the United States are not actionable in United States federal courts." *Peter Starr*, 783 F.2d at 1442 (citing *Robert Stigwood*, 530 F.2d at 1101).

Furthermore, we note that Congress chose in 1976 to expand one specific "extraterritorial" application of the Act by declaring that the unauthorized importation of copyrighted

works constitutes infringement even when the copies lawfully were made abroad. *See* 17 U.S.C.A. § 602(a) (West Supp. 1992).[11] Had Congress been inclined to overturn the preexisting doctrine that infringing acts that take place wholly outside the United States are not actionable under the Copyright Act, it knew how to do so. *See Argentine Republic v. Amerada Hess Shipping Corp.*, 488 U.S. 428, 440 (1989) ("When it desires to do so, Congress knows how to place the high seas within the jurisdictional reach of a statute." (quoted in *Aramco*, 111 S. Ct. at 1235)). Accordingly, the presumption against extraterritoriality, "far from being overcome here, is doubly fortified by the language of [the] statute," *Smith v. United States*, 113 S. Ct. 1178, 1183 (1993) (quoting *United States v. Spelar*, 338 U.S. 217, 222 (1949)), as set against its consistent historical interpretation.

[11]The 1909 Act contained a similar provision that prohibited "the importation into the United States . . . of any *piratical* copies of any work copyrighted in the United States." Act of Mar. 4, 1909, ch. 320, § 30, 35 Stat. 1075, 1032 (1909) (emphasis added). *See generally Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1389-91 (C.D. Cal. 1993) (noting that the perceived inadequacies of other remedies provided the impetus for extending the import prohibition to copies lawfully made abroad).

Appellees, however, rely on dicta in a recent decision of the District of Columbia Circuit for the proposition that the presumption against extraterritorial application of U.S. laws may be "overcome" when denying such application would "result in adverse effects within the United States." *Environmental Defense Fund, Inc. v. Massey*, 986 F.2d 528, 531 (D.C. Cir. 1993) (noting that the Sherman Act, Lanham Act, and securities laws have been applied to extraterritorial conduct).[12] However, the *Massey* court did not state that extraterritoriality would be *demanded* in such circumstances, but that "the *presumption* is *generally* not *applied* where the failure to extend the scope of the statute to a foreign setting will result in adverse [domestic] effects." *Id.* at 531 (emphasis added). In each of the statutory schemes discussed by the *Massey* court, the ultimate touchstone of extraterritoriality consisted of an ascertainment of congressional intent; courts did not rest *solely* on the consequences of a failure to give a statutory scheme extraterritorial application.[13] More importantly, as the

[12]The court ultimately concluded that the case did "not present an issue of extraterritoriality" because virtually all of the relevant conduct (relating to the application of the National Environmental Policy Act to Antarctica) occurred within the United States. *Massey*, 986 F.2d at 532-33.

[13]*See Aramco*, 111 S. Ct. at 1232 (explaining the source of the extraterritorial application of the Lanham Act as its " 'broad jurisdictional grant' " that had a " 'sweeping reach into all commerce which may lawfully be regulated by Congress' " (quoting *Steele v. Bulova Watch Co.*, 344 U.S. 280, 285, 287 (1952) (internal quotations omitted)); *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 443 (2d Cir. 1945) (L. Hand, J.) (antitrust laws) ("[W]e are concerned only with whether Congress chose to attach liability to conduct outside the United States of persons not in alle-

Massey court conceded, *see id.* at 532-33, application of the presumption is particularly appropriate when "[i]t serves to protect against unintended clashes between our laws and those of other nations which could result in international discord," *Aramco*, 111 S. Ct. at 1230 (citing *McCulloch v. Sociedad Nacional de Marineros de Honduras*, 372 U.S. 10, 20-22 (1963)).[14]

We believe this latter factor is decisive in the case of the Copyright Act, and fully justifies application of the *Aramco* presumption even assuming *arguendo* that "adverse effects" within the United States "generally" would require a plenary inquiry into congressional intent. At the time that the international distribution of the videocassettes in this case took place, the United States was a member of the Universal Copyright Convention ("UCC"), and, in 1988, the United States acceded to the Berne Convention for the Protection of Literary and Artistic Works ("Berne Conv."). The central thrust of these multilateral treaties is the principle of "national treatment." A work of an American national first generated in America will

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giance to it."); *Schoenbaum v. Firstbrook*, 405 F.2d 200, 206 (2d Cir. 1968) (securities laws) ("We believe that Congress intended the Exchange Act to have extraterritorial application in order to protect domestic investors . . . ."), *partially rev'd on other grounds*, 405 F.2d 215 (2d Cir. 1968) (en banc), *cert. denied*, 395 U.S. 906 (1969).

[14]Of course, this is not the sole source of the presumption. *See Smith*, 113 S. Ct. at 1183 n.5 (noting that the presumption "is rooted in a number of considerations, not the least of which is the common-sense notion that Congress generally legislates with domestic concerns in mind"). However, preventing international discord clearly is one of the most important values that it furthers. *See, e.g., Benz*, 353 U.S. at 147.

receive the same protection in a foreign nation as that country accords to the works of its own nationals. *See* UCC Art. II; Berne Conv. Art. V. *See generally* 1 International Copyright Law and Practice, Intr. § 5, at 145-74 (Paul E. Geller & Melville B. Nimmer eds., 1993) [hereinafter Geller & Nimmer]; Stephen M. Stewart, International Copyright and Neighboring Rights 37-48 (2d ed. 1989). Although the treaties do not expressly discuss choice-of-law rules, *see* Nimmer & Geller, *supra,* Intr. § 6, at 181-83, 189,[15] it is commonly acknowledged that the national treatment principle implicates a rule of territoriality. *See London Film Prods. Ltd. v. Intercontinental Communications, Inc.,* 580 F. Supp. 47, 50 n.6 (S.D.N.Y. 1984); *see also* 3 Nimmer, *supra,* § 17.05, at 17-39 ("The applicable law is the copyright law of the state in which the infringement occurred, not that of the state of which the author is a national or in which the work was first published."). *See generally* Nimmer & Geller, *supra,* Intr. § 6, at 182; Stewart, *supra,* at 46-47. Indeed, a recognition of this principle appears implicit in Congress's statements in acceding to Berne that "[t]he primary mechanism for discouraging discriminatory treatment of foreign copyright claimants is the principle of national treatment," H.R. Rep. No. 609, 100th Cong., 2d Sess. 43 [hereinafter House Report], and that adherence to Berne will require "careful due regard for the[ ] values" of other member nations, *id.* at 20.

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[15]The Berne Convention specifies that domestic law governs a work's protection in its country of origin. *See* Berne Conv. Art. V(3). For acts of infringement that occur in other nations, however, the treaty uses the ambiguous concept of the "law of the country where protection is claimed." *Id.* Art. V(2). *See generally* Eugen Ulmer, Intellectual Property Rights and the Conflict of Laws 11-12 (1978); World Intellectual Property Organization, Guide to the Berne Convention 32-34 (1978).

[12] In light of the *Aramco* Court's concern with preventing international discord, we think it inappropriate for the courts to act in a manner that might disrupt Congress's efforts to secure a more stable international intellectual property regime unless Congress otherwise clearly has expressed its intent. The application of American copyright law to acts of infringement that occur entirely overseas clearly could have this effect. Extraterritorial application of American law would be contrary to the spirit of the Berne Convention, and might offend other member nations by effectively displacing their law in circumstances in which previously it was assumed to govern. Consequently, an extension of extraterritoriality might undermine Congress's objective of achieving " 'effective and harmonious' copyright laws among all nations.' " House Report, *supra*, at 20. Indeed, it might well send the signal that the United States does not believe that the protection accorded by the laws of other member nations is adequate, which would undermine two other objectives of Congress in joining the convention: "strengthen[ing] the credibility of the U.S. position in trade negotiations with countries where piracy is not uncommon" and "rais[ing] the like-[li]hood that other nations will enter the Convention." S. Rep.

352, 100th Cong., 2d Sess. 4-5, *reprinted in* 1988 U.S.C.C.A.N., 3706, 3709-10.[16]

Moreover, although Appellees contend otherwise, we note that their theory might permit the application of American law to the distribution of protected materials in a foreign country conducted exclusively by citizens of that nation. A similar possibility was deemed sufficient in *Aramco* to find a provision that, on its face, appeared to contemplate that Title VII would be applied overseas, insufficient to rebut the presumption against extraterritoriality. *See Aramco*, 111 S. Ct. at 1234. Of course, under the Berne Convention, all states must guarantee minimum rights, *see* Berne Conv. Art. IV; Stewart, *supra*, at 39-40, and it is plausible that the application of American law would yield outcomes roughly equivalent to those called for by the application of foreign law in a number of instances. Nonetheless, extending the reach of American copyright law likely would produce difficult choice-of-law problems, *cf.* House Report, *supra*, at 43 ("[Berne] does not,

[16]Indeed, the concern that action by the courts could interfere with Congress's efforts to secure a multilateral regime of intellectual property protection has been heightened by the use of the Berne Convention as the model for the "TRIPS" agreement on intellectual property protection that emerged as part of the recently completed GATT negotiations. *See Capitol Hill Hearing Testimony*, Fed. Doc. Clearing House Cong. Testimony (CCH), at *1-*2 (Mar. 8, 1994) (testimony of Jacques J. Gorlin, consulting economist to the Intellectual Property Committee, before the House Subcommittee on Economic Policy, Trade and Environment of the Committee on Foreign Affairs) (noting that TRIPS largely requires participating members to "comply with the Berne Convention"), *available in* LEXIS, News library, Curnws file. One of Congress's stated objectives in adhering to Berne was to provide a firm foundation for the enactment of a more comprehensive agreement on intellectual property protection through GATT. *See* House Report, *supra*, at 21; S. Rep. 352, 100th Cong., 2d Sess. 6, *reprinted in* 1988 U.S.C.C.A.N. 3706, 3711.

however, require all countries to have identical legal systems and procedural norms."), dilemmas that the federal courts' general adherence to the territoriality principle largely has obviated. *See* 3 Nimmer, *supra*, § 17.05, at 17-39 (noting that the "national treatment" principle has resulted in the absence of "[c]onflicts of law problems . . . in the law of copyright"); *see also* 2 Goldstein, *supra*, § 16.2, at 681-82, § 16.3, at 683. Even if courts, as a matter of comity, would assert extraterritorial jurisdiction only when the effects in the United States and the contacts of the offending party with this country are particularly strong, *cf. Timberlane Lumber Co. v. Bank of Am., N.T. & S.A.*, 549 F.2d 597, 615 (9th Cir. 1976), *cert. denied*, 472 U.S. 1032 (1985), that the assertion of such jurisdiction would engender new and troublesome choice-of-law questions provides a compelling reason for applying the *Aramco* presumption. *Cf. Massey*, 986 F.2d at 533 (noting that the *absence* of " 'choice of law' dilemmas" in applying the National Environmental Policy Act to projects in Antarctica provided a reason for *not* applying the presumption).

[13] Accordingly, because an extension of the extraterritorial reach of the Copyright Act by the courts would in all likelihood disrupt the international regime for protecting intellectual property that Congress so recently described as essential to furthering the goal of protecting the works of American authors abroad, *see supra* note 10, we conclude that the *Aramco* presumption must be applied. *Cf. Benz*, 353 U.S. at 147 ("For us to run interference in such a delicate field of international relations there must be present the affirmative intention of the Congress clearly expressed."). Because the presumption has not been overcome, we reaffirm that the

United States copyright laws do not reach acts of infringement that take place entirely abroad. It is for Congress, and not the courts, to take the initiative in this field.

III. Other Arguments

Appellees raise a number of additional arguments for why the district court's judgment should be affirmed. Relying upon the Second Circuit's doctrine described above, *see supra* pp. 4919-20, Appellees maintain that they may recover damages for international distribution of the Picture based on the theory that an act of direct infringement, in the form of a reproduction of the negatives for the Picture, took place in the United States. Appellees also suggest that they may recover, under United States law, damages stemming from the international distribution on the theory that the distribution was part of a larger conspiracy to violate their copyright that included actionable infringement within the United States. In addition, they maintain that Appellants are liable for the international distribution under foreign copyright laws. Finally, Appellees argue that the district court's damage award can be sustained under the breach of contract theory not reached by the panel.

We resolve none of these questions, but leave them for the panel, in its best judgment, to consider. A remand to the district court might well be necessary to permit further factual development in light of our decision to overrule aspects of *Peter Starr*. The panel, however, is free to take whatever action it views as appropriate that is consistent with our mandate. *See Haphey v. Linn County*, 953 F.2d 549, 552 (9th Cir. 1992) (en banc).

Conclusion

We hold that the mere authorization of acts of infringement that are not cognizable under the United States copyright laws because they occur entirely outside of the United States does not state a claim for infringement under the Copyright Act. *Peter Starr* is overruled insofar as it held to the contrary. Accordingly, we vacate Part III of the panel's disposition, in which it concluded that the international distribution of the film constituted a violation of the United States copyright laws. We also vacate that portion of the disposition that affirmed the damage award based on foreign distribution of the film and the panel's affirmance of the award of attorneys' fees. Finally, we vacate the district court's grant of injunctive relief insofar as it was based on the premise that the Distributors had violated the United States copyright laws through authorization of the foreign distribution of the Picture on videocassettes. *Cf. Filmvideo*, 668 F.2d at 93-94.

The cause is remanded to the panel for further proceedings consistent with the mandate of this court.

Vacated in Part and **Remanded**.

DOCUMENT 7

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
JUNE 27, 1994
CATHY A. CATTERSON, CLERK
U.S. COURT OF APPEALS

SUBAFILMS, LTD.; THE HEARST CORP.,	NOS. 91-56248 91-56379
Plaintiffs-counter-defendants - Appellees,	DC NO. CY - 88 - 6626 - JGD
v.	**ORDER**
MGM-PATHE COMMUNICATIONS CO. fka MGM/UA Communications Co. and as United Artists Corporation; MGM/UA HOME VIDEO, INC.; WARNER HOME VIDEO, INC.; WARNER BROS. INC.,	
Defendants-counter-claimants - Appellants.	

SUBAFILMS, LTD.; THE HEARST CORP.,	NO. 91-56289
Plaintiffs - Appellants,	
v.	
MGM-PATHE COMMUNICATIONS CO. fka MGM/UA Communications Co. and as United Artists Corporation; MGM/UA HOME VIDEO, INC.; WARNER HOME VIDEO, INC.; WARNER BROS. INC.; UNITED ARTISTS CORPORATION,	
Defendants - Appellees.	

Before: WALLACE, Chief Judge, BROWNING, TANG, POOLE, D.W. NELSON, BEEZER, HALL, BRUNETTI, KOZINSKI, THOMPSON, and LEAVY, Circuit Judges.

ORDER

The members of the eleven-judge en banc panel unanimously vote to deny to petition for rehearing and to reject the suggestion for rehearing en banc. In addition, Chief Judge Wallace, and Judges Browning, Tang, D.W. Nelson, Hall, Thompson, and Leavy vote to deny the suggestion to modify or clarify the holding with respect to attorneys' fees. Judges Poole, Beezer, Brunetti, and

Kozinski would enter an order remanding the attorneys' fees issue to the district court.

The full court has been advised of the suggestion for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for rehearing is denied, the suggestion to modify or clarify the court's holding with respect to attorneys' fees is denied, and the suggestion for rehearing en banc is rejected.